



Australian Agricultural Company Limited
ABN 15 010 892 270

FINANCIAL REPORT

For the Year Ended 31 December 2012

Directors' Report (continued)

Your Directors submit their report for the year ended 31 December 2012.

DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are set out in the following section. All of the Directors were in office for the entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Donald McGauchie AO, FAICD (Non-executive Chairman)

Mr. McGauchie was appointed a Director on 19 May 2010 and subsequently Chairman on 24 August 2010. Mr. McGauchie is the Chairman of the Nomination Committee, a member of the Audit Committee, the Staff and Remuneration Committee, and the Risk and Compliance Committee.

Mr. McGauchie is currently a Director of James Hardie SE, Chairman of Nufarm Limited and Director of GrainCorp Limited. His previous roles with public companies include Chairman of Telstra Corporation Limited, Deputy Chairman of Ridley Corporation Limited, Director of National Foods Limited, Chairman of Woolstock, Chairman of the Victorian Rural Finance Corporation (statutory corporation), and also President of the National Farmers Federation. During 2011 he retired as a member of the Reserve Bank Board. In 2001 Mr. McGauchie was named the Rabobank Agribusiness Leader of the Year, was later awarded the Centenary Medal for services to Australian society through agriculture and business and in 2004 was appointed an Officer of the Order of Australia.

During the past three years, Mr. McGauchie has served as a Director of the following listed companies:

- James Hardie SE* - Appointed August 2003;
- Nufarm Ltd* - Appointed December 2003; and
- Graincorp Ltd* - Appointed December 2009.

*Denotes current Directorship

David Farley (Managing Director/Chief Executive Officer)

Mr. Farley was appointed Managing Director/Chief Executive Officer on 1 December 2009. Mr. Farley attends all Board Committee meetings by invitation.

Mr. Farley has held a number of senior leadership and Board roles at high profile Australian and international agribusinesses, across a variety of agricultural commodities with a career spanning more than 35 years.

Mr. Farley was formerly Managing Director and CEO of Colly Cotton Limited, Australia's largest cotton producer, a position he held for more than 16 years. Mr. Farley's executive leadership roles also include President/CEO of Calcot, a US cotton warehousing and marketing co-operative and Farms and Development Manager at F S Falkiner & Sons.

Mr. Farley was previously a director of Tandou Limited, Wool International, and Rural Industries Research and Development. Mr. Farley commenced his career as a Jackeroo on sheep and cattle stations in Queensland and the NSW Riverina.

During the past three years, Mr. Farley has served as a Director of the following listed company:

- Tandou Limited - Appointed November 2007; Resigned March 2010.

Arunas Paliulis BA

Mr. Paliulis was appointed a Director on 12 June 2009. Mr. Paliulis is the CEO and board member of Felda IFFCO LLC in Cincinnati, Ohio, United States of America. He is a member of the Staff and Remuneration Committee, the Nomination Committee, and the Risk and Compliance Committee.

Mr. Paliulis is a graduate of Harvard College, Cambridge, Massachusetts. He has over 35 years of experience in the global trading of grains, oilseeds and feedstuffs and in devising risk management strategies for several organisations, including Cargill Inc. (USA), Louis Dreyfus Corporation (USA and France), Woodhouse, Drake & Carey (UK) and Emirates Grain Products Co LLC (UAE). Mr. Paliulis is a member of the Board and CEO of F.I.N.A. based in Cincinnati, Ohio, USA.

During the past three years Mr. Paliulis has not served as a Director on any other listed company.

Directors' Report (continued)

DIRECTORS (continued)

Dato' Sabri Ahmad BSc (Hons), MSc

Dato' Sabri Ahmad joined the Board to act as an alternate Director for Datuk Abdul Samad from 22 November 2010 and resigned on 26 January 2011. Dato' Sabri Ahmad was appointed a director on 4 April 2011 and is a member of the Nomination Committee.

Dato' Sabri Ahmad is the current Group President/Chief Executive Officer of Felda Global Ventures Holdings and Felda Holdings Berhad, the parent company of all the commercial entities of Felda (a land development agency that was formed by an Act of Parliament in 1956). He holds BSc (Hons) Agricultural from the University of Malaya and MSc in Agricultural Economics from the University of London. He also holds an Advanced Diploma in International Studies from the University of Rhode Island and an Advanced Diploma in Management from the University of Oxford. Previously, he was the Chairman of Malaysian Palm Oil Board (MPOB), and also served as the Chief Executive Officer of Golden Hope Plantations Berhad. He has held several key positions at Golden Hope Plantations Berhad. Dato' Sabri Ahmad had also experienced serving companies such as Harrisons Malaysia Plantations Berhad, Fisheries Development Authority (MAJUIKAN) and Ministry of Agriculture. Additionally, he is a member of the Policy Advisory Committee of MPOB and Vice President of Business Council of Sustainable Development Malaysia.

During the past three years Dato' Sabri Ahmad has not served as a Director on any other listed company.

* 'Dato' is an honorific title awarded by the Federal/State Governments in Malaysia to recognise those who have made a significant contribution to the Federal/State or community.

Stuart Black AM, FCA, FAICD, BA (Accounting)

Mr. Black was appointed a Director on 5 October 2011. Mr. Black is Chairman of the Audit Committee (appointed Chairman on 16 March 2012) and is a member of the Nomination Committee.

Mr. Black is Managing Partner of Chapman Eastway Chartered Accountants and has extensive experience in agribusiness. He is a current non-executive director of leading geophysical consultants Coffey International Limited, and a Past President of the Institute of Chartered Accountants of Australia. He was the inaugural Chair and is a current Board Member of the Australian Accounting Professional and Ethical Standards Board. Mr Black is the representative of the Australian accounting bodies on the International Federation of Accountants Small Medium Practice Committee. In 2012 he was appointed a member of the Order of Australia for services to the profession of accounting, to ethical standards, as a contributor to professional organisations, and to the community.

During the past three years Mr. Black has served as a Director of the following listed company:

- Coffey International Limited* – Appointed March 2002.

*Denotes current Directorship

David Crombie BEcon (UQ)

Mr. Crombie was appointed a Director on 5 October 2011. Mr. Crombie is Chairman of the Staff and Remuneration Committee (appointed Chairman on 7 August 2012) and is a member of the Audit Committee and the Nomination Committee.

Mr Crombie is a Director of Alliance Aviation Services Limited and Foodbank Queensland Limited. He was a founding Partner and is currently a non-Executive Director of GRM International and he is also a Commissioner of the Australian Centre for International Agricultural Research (ACIAR). He is the immediate Past President of the National Farmers Federation, former Chairman of MLA and a former Director of Grainco Australia, the Meat Industry Council and Export Finance Insurance Corporation.

Mr Crombie operates family properties, breeding cattle and farming in southern Queensland.

During the past three years Mr. Crombie has served as a Director of the following listed company:

- FKP Property Group - Resigned November 2010.

Tom Keene B Ec, FAICD

Mr. Keene was appointed a Director on 5 October 2011. Mr. Keene is Chairman of the Risk and Compliance Committee (appointed Chairman on 7 August 2012), and a member of the Nomination Committee and the Staff and Remuneration Committee (resigned as Chairman on 7 August 2012).

Mr. Keene has an extensive career in agriculture and is the former Managing Director of Graincorp Limited, where he established the company as a listed entity. He is currently a director of Cotton Seed Distributors Limited and Midway Limited. In 2007 Mr Keene received the NAB Agribusiness Leader of the Year Award. During the past three years Mr. Keene has not served as a Director on any other listed company.

Directors' Report (continued)

DIRECTORS (continued)

Dr. Shehan Dissanayake Ph.D. (appointed 27 April 2012)

Dr. Shehan Dissanayake was appointed a Director on 27 April 2012. Dr. Shehan Dissanayake is a member of the Nomination Committee. Dr. Shehan Dissanayake is a senior Managing Director and member of the Board of Directors of the Tavistock Group, a privately held investment company. He has responsibility for portfolio strategy across 200 companies in 15 countries, and is CEO of Tavistock Life Sciences, an operating unit of the Tavistock Group.

Before joining Tavistock Group in 2002, Dr. Shehan Dissanayake was a managing partner of Arthur Andersen with responsibility for strategy and business planning for the global legal, tax and HR Consulting Divisions of the firm, encompassing 1,600 partners and 15,000 professionals. Earlier in his career, Dr. Shehan Dissanayake was involved in the medical research and technology industries. He holds a Ph.D. in Pharmacological and Physiological Sciences from the University of Chicago.

During the past three years Dr. Shehan Dissanayake has not served as a Director on any other listed company.

Nick Burton Taylor AM B.Ec (Syd), F Fin, FCA, FAICD (retired on 16 March 2012)

Mr. Burton Taylor was first appointed to the Board of the Company in April 2001 and was Chairman from August 2003 until 21 May 2008. He was subsequently elected a Director on 12 June 2009 and resigned on 16 March 2012. Mr. Burton Taylor was Chairman of the Audit Committee, a member of the Nomination Committee and the Staff and Remuneration Committee.

Mr. Burton Taylor is Chairman of Delta Agribusiness. He is the past Chairman of Airservices Australia and Australian Topmaking Services Limited. He is a past Director of CSR Limited, Rural Press Limited, Hazelton Airlines Limited, GrainCorp Limited, Federal Airports Corporation and Sydney Airport Corporation Limited, and a former member of the Rabobank Advisory Board. Mr. Burton Taylor owns Hillgrove Pastoral Pty Ltd and Kenny's Creek Angus, producers of beef, wool and grain. He is a Past President of the Institute of Chartered Accountants of Australia and current Chairman of the Country Education Foundation of Australia.

During the past three years, Mr. Burton Taylor has served as a Director of the following listed company:

- CSR Limited – Appointed August 2008; Resigned 11 May 2011.

Chris Roberts B.Comm (retired 16 March 2012)

Mr. Roberts was first appointed to the Board in June 2001. Prior to his resignation on 21 May 2008, he was Chairman of the Audit Committee. He was subsequently elected a Director on 12 June 2009 and resigned on 16 March 2012. Mr. Roberts was a member of the Staff and Remuneration Committee, the Nomination Committee and the Audit Committee.

Mr. Roberts is currently the Chairman of Amcor Limited, Deputy Chairman of The Centre for Independent Studies and a Director of Control Risks Group Holdings Limited. His prior experience includes Chairman and Managing Director of Arnotts Limited, Chairman of Email Limited, Director of Telstra Corporation Limited, MLC Life Limited and Managing Director of Orlando Wyndham Wines.

During the past three years Mr. Roberts has served as a Director of the following listed company:

- Amcor Limited* – Appointed February 1999.

*Denotes current Directorship

Irfan Allana (alternate Director for A. Paliulis)

Mr. Irfan Allana is the major shareholder and promoter of Allanasons Limited, India. Mr. Irfan Allana pioneered processing and export of frozen Buffalo meat from India.

The Allana Group is the world's largest processor of frozen Buffalo meat, exporting to over 70 countries. Mr. Irfan Allana also pioneered processing of various fruits and vegetables in several parts of India resulting in Allanasons Limited being the leading exporter of processed and frozen mango and guava from India. Mr. Irfan Allana joined the Board to act as an alternate Director for Arunas Paliulis from 22 November 2010.

Directors' Report (continued)

DIRECTORS (continued)

Denys Collin Munang (alternate Director for Dato' Sabri Ahmad) (appointed 13 March 2012)

Mr Denys Collin Munang is the Head of Strategy, Business and Corporate for Felda Global Ventures Holdings Berhad's Global Plantations division. He is also a member of Board of Directors for several FGV companies in Indonesia. He is a graduate in Economics from the University of Sydney, Australia.

Prior to FGV, Mr Denys Munang was attached to Omya, a Swiss Multinational company for 15 years. He has held various senior positions in Omya, including as the CEO of Omya's West Asia operations based in Mumbai, India. His last position there was as the Director for Strategic Projects, heading the Mergers & Acquisitions and Business Planning for Omya's Asia Pacific Region.

COMPANY SECRETARY

Bruce Bennett BCom, LLB, ACIS, MAICD

Mr. Bennett was appointed Company Secretary and General Counsel in November 2006. Before joining the Company, he was Special Counsel for a leading law firm, where he specialised in company and property law, mergers and acquisitions and other commercial contracts. He has over 20 years' experience in legal practice, having practised in both Queensland and New South Wales. Mr. Bennett is a Chartered Secretary and a member of the Australian Institute of Company Directors.

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this report, the interests of the Directors in the shares, options and performance rights of Australian Agricultural Company Limited were:

	Ordinary Shares	Options over Ordinary Shares	Performance Rights
<i>Current Directors</i>			
D. McGauchie	348,689	Nil	Nil
D. Farley	416,313	Nil	711,985
A. Paliulis	Nil	Nil	Nil
Dato' Sabri Ahmad	Nil	Nil	Nil
S. Black	10,000	Nil	Nil
D. Crombie	Nil	Nil	Nil
T. Keene	Nil	Nil	Nil
Dr. S. Dissanayake	Nil	Nil	Nil
I. Allana (alternate)	Nil	Nil	Nil
D. Munang (alternate)	Nil	Nil	Nil
<i>Former Directors¹</i>			
N. Burton Taylor	6,305,802	Nil	Nil
C. Roberts	60,563	Nil	Nil

¹ Shareholding as at the date of resignation or retirement

DIVIDENDS AND EARNINGS PER SHARE

	2012 Cents	2011 Cents
Earnings Per Share		
Basic (loss)/earnings per share	(2.7)	3.6
Diluted (loss)/earnings per share	(2.7)	3.6

No final or interim dividends were declared or paid during the year (2011: Nil).

CORPORATE INFORMATION

Nature of Operations and Principal Activities

The principal activities of entities within the Group during the year were:

- Operation of grazing and farming properties;
- Beef cattle breeding, growing, feedlotting and trading; and
- Beef value-add businesses relating to wholesale meat marketing.

Employees

The Group employed 432 employees calculated on a full time equivalent basis as at 31 December 2012 (2011: 449 employees).

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW

The group operates an integrated cattle production system across 18 cattle stations, 5 agisted properties, 2 owned feedlots, 5 external feedlots, and 2 owned and 2 external farms located throughout Queensland and the Northern Territory, covering approximately 6.9 million hectares.

Year in review

31 December 2012 Financial Highlights

- Sales growth (cattle, wholesale and farming) of \$15.2 million (5.0% increase) compared to the 2011 comparative period
- Gross margin decline of \$9.4 million (7.9% decline) compared to the 2011 comparative period
- EBITDA decline of \$28.8 million (47.2% decline) compared to the 2011 comparative period
- EBIT decline of \$36.5 million (71.3% decline) compared to the 2011 comparative period
- Profit after tax decline of \$22.8 million (158.4% decline) compared to the 2011 comparative period

Results

	2012 \$'000	2011 \$'000	Favourable/ (Unfavourable) Movements %
Continuing Operations			
Finished & store cattle			
Cattle sales ⁽¹⁾	161,608	162,678	(0.7)%
Cattle growth ⁽²⁾	76,840	66,224	16.0%
Cattle fair value adjustments ⁽³⁾	87,550	105,153	(16.7)%
Deemed cost of cattle sold ⁽⁴⁾	(161,608)	(162,678)	0.7%
Cattle expenses ⁽⁵⁾	(37,415)	(31,182)	(20.0)%
Feedlot cattle expenses ⁽⁶⁾	(29,529)	(27,796)	(6.2)%
Finished & store cattle gross margin	97,446	112,399	(13.3)%
Wholesale beef			
Sales	140,376	135,151	3.9%
Cost of meat sold	(136,235)	(130,146)	(4.7)%
Wholesale beef gross margin	4,141	5,005	(17.0)%
Farming			
Income	19,188	8,171	134.8%
Crop costs	(11,347)	(6,720)	(68.9)%
Farming gross margin	7,841	1,451	440.4%
Gross operating margin	109,428	118,855	(7.9)%
Other revenue and other income	4,601	7,868	(41.5)%
Expenses			
Administration and other non-station operating costs	(17,060)	(14,442)	(18.1)%
Employees	(34,224)	(29,401)	(16.4)%
Lease and property related costs	(6,968)	(3,899)	(78.7)%
Other station operating costs	(23,596)	(18,041)	(30.8)%
Operating expenses	(81,848)	(65,783)	(24.4)%
Earnings from operations – EBITDA⁽⁸⁾	32,181	60,940	(47.2)%
Depreciation	(9,405)	(8,178)	(15.0)%
Impairment of property, plant and equipment, and goodwill	(8,085)	(1,572)	(414.3)%
Earnings from operations – EBIT⁽⁸⁾	14,691	51,190	(71.3)%
Net finance costs from continuing operations	(27,132)	(31,067)	12.7%
(Loss)/Profit from continuing operations before income tax	(12,441)	20,123	(161.8)%
Income tax benefit/(expense)	4,032	(5,712)	170.6%
(Loss)/Profit from continuing operations after related tax expense	(8,409)	14,411	(158.4)%
Profit/(Loss) from discontinued operations after related income tax	-	(3,886)	100.0%
Net (loss)/profit after tax	(8,409)	10,525	(179.9)%

(1) Cattle sales are sales from cattle physically delivered to market

(2) Cattle growth is the value change in the herd arising from increased weight as the cattle grow

(3) Cattle fair value adjustments arise from market value changes in the herd, natural increase (7), attrition and rations

(4) Under the Biological Assets accounting standards the value changes occur prior to the point of sale and these are reflected in 2 & 3 above

(5) Direct costs associated with managing non-feedlot cattle

(6) Direct costs associated with managing feedlot cattle

(7) Natural increase is the value change from calves and brandings

(8) EBIT (earnings before interest and tax) and EBITDA (earnings before interest, tax, depreciation and amortisation) are non-IFRS financial information

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW (continued)

The table below shows the main elements of Cattle Fair Value Adjustments:

	2012 \$'000	2011 \$'000
Biological Transformation ⁽¹⁾	40,406	37,402
Market SGARA	(12,224)	25,478
Natural Increase	70,376	58,365
Attrition	(11,008)	(16,092)
	<u>87,550</u>	<u>105,153</u>

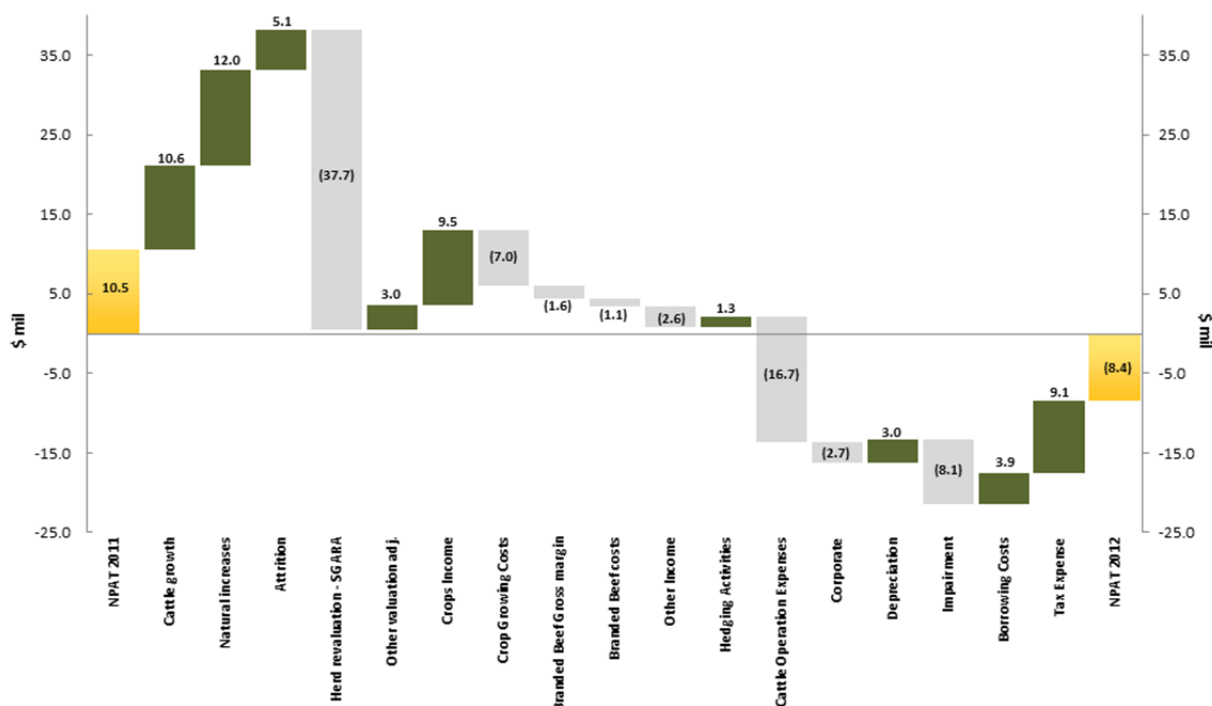
(1) Biological transformation in accordance with Australian Accounting Standard AASB 141 *Agriculture*, includes reclassification of an animal as it moves from being a branded calf and progresses through the various stages to become either a trading animal (grass and then feedlot in some cases) and then as it ages. All these changes occur and are measured before the ultimate sale (cash realisation).

Summarised operating results are as follows:

Operating Segments – continuing operations	Revenues		Earnings before finance costs and income tax expense	
	2012	2011	2012	2011
	\$M	\$M	\$M	\$M
Finished & store cattle	236.8	230.5	15.0	46.5
Wholesale beef	140.4	135.2	1.1	1.9
Farming	24.1	12.0	(0.6)	2.8
Meat processing	Nil	Nil	(0.7)	Nil

The waterfall chart below shows the key financial movements between the 2011 result and the 2012 result

NPAT FY12 v NPAT FY11



The 2012 year was seriously impacted by the decision of the Australian Government in June 2011 to suspend live cattle exports to Indonesia. The flow-on effects from this decision continue to be felt today by the sector in Northern Australia.

Australia's suspension of live exports prompted Indonesia to respond by restricting imports and accelerating its own strategy of self-sufficiency in beef production. This resulted in almost a halving of cattle import permits issued by Indonesia. The timing of the issuance of export permits meant cattle had to be shipped when the permits were available causing cattle to be exported at lower weights than usual.

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW (continued)

This reduction in import permits has also meant cattle which would have been destined for the Indonesian market have remained in the domestic market, with the increase in supply causing a drop in cattle prices.

AACo determined not to sell cattle into this over-supplied domestic market where possible, focusing on retaining and improving a young herd with which AACo can take advantage of any increase in global demand and then convert into cash.

This strategy has meant that AACo has held cattle as market prices in Australia fell throughout 2012. The AACo herd value on a mark-to-market basis (SGARA – non cash) has fallen and that the valuation of the current, increased herd at current low prices has affected the profit and loss statement. The difference in mark-to-market SGARA price movements between 2011 and 2012 is a reduction of \$37.7 million.

The holding back on sales in order to take advantage of better pricing has also negatively affected cashflow. These cattle will be sold in 2013 and AACo is now well positioned to generate cash flow during 2013 from these cattle.

The drop in cattle prices caused by the suspension of live trade has also required AACo to make prudent revaluations of our northern Australia property holdings based on the valuations provided by Herron Todd White for all the AACo pastoral properties. This has resulted in an approximate \$41 million write down on the statement of financial position of which \$8 million flowed through to the profit and loss account as an impairment.

The development of AACo's \$85 million Darwin abattoir, which is expected to be completed by late 2013 depending on the timing of financial close, will go some way to insulating AACo from movements in domestic pricing and live export fluctuations by opening up another marketing channel. It will be well positioned to take advantage of the current continued rising global beef price.

The live cattle suspension impacted the June 2011 result by \$8.2 million (loss) reflecting the then estimated market value loss on the affected herd. The Group has now quantified additional loss on cattle delivered or contracted during the period of the suspension. Losses were also sustained from cattle falling out of specification and having to be delivered to other markets. These revenue losses coupled with increased freight, logistical and other additional costs, as a consequence of the suspension, give rise to estimated total direct losses of \$5.0 - \$8.0 million. The impact of the suspension continues to be felt through 2012 and has reflected on lower sales volumes, depressed prices, and other consequential losses that continue to be incurred.

AACo continues to work closely with Government and our supply chain partners in Indonesia to ensure compliance with the new live export regime.

Land, including buildings and improvements, represents 49% (2011: 51%) of the gross assets (excluding cash) of the Group. During 2012 all properties were valued by an external valuer. The outcome of these valuations has given rise to an overall decline of \$40.8 million (2011: increment \$9.5 million) of which \$8.1 million has been recognised as an impairment cost in the profit and loss of the Group and the balance applied as a reduction to the asset revaluation reserve.

The major valuation decrements occurred in the Victoria River Group (35.2% decrement) and the Barkly Group (6.8% decrement). Both these areas were impacted by the live cattle suspension.

Seasonal Conditions

In general, weather conditions in the first 6 months of the year were supportive with good rainfall.

Conversely, the last 6 months of the year were drier than anticipated with the onset of wet conditions coming late to our properties outside of Victoria River and the Gulf areas. These drier conditions have been a key contributing factor to depressed cattle prices and increased costs associated with cattle feed expenses.

Several of our stations were also impacted by fires in second part of the year. These fires led to increased costs associated with labour, transport and feed.

Cattle Operations

The Group continues to drive the herd improvement process through a continued focus on genetic breed types, age profile and fertility. This has allowed the Group to achieve a more balanced exposure to grass finished cattle, Wagyu long grain fed, finished breeder cattle and live exports.

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW (continued)

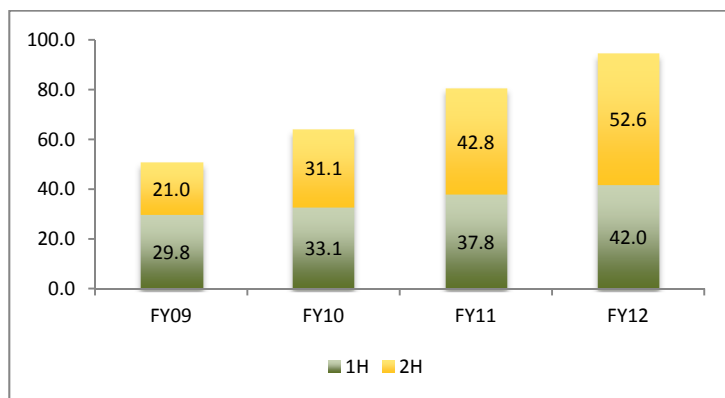
Cattle operations (continued)

During the year the Company delivered 249,000 (2011 – 240,000) head of cattle as set out in the table below.

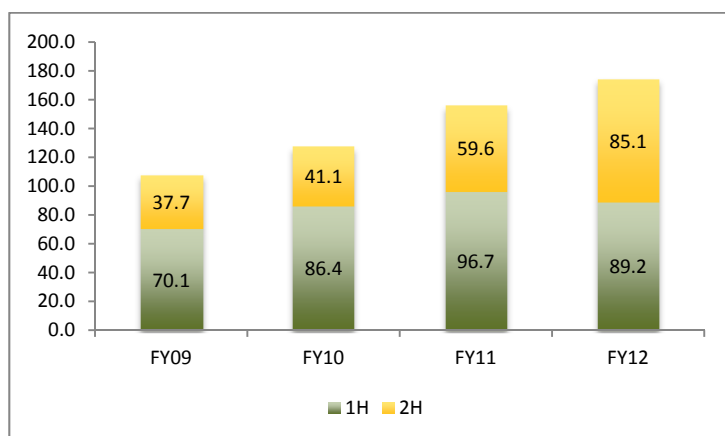
	Grass Finished	Shortfed Grain Finished		Wagyu		Breeder and Feeder	Live Export	Total sales	Av. Sale Price (\$/head)
		Internal	External	Internal	External				
FY12	50,184	4,115	16,377	29,565	7,108	59,107	82,409	248,865	952
FY11	47,166	3,603	29,819	26,979	1,557	50,470	80,177	239,771	961

In operational metrics directly within management's control, the group has met or improved on most measures as the charts below demonstrate.

Kilograms Produced ('000's kgs)



Calves Branded ('000's)



The introduction of Individual Animal Recognition (IAR) processes has meant that the Group now has more accurate data. The induction process affected mustering rates as each animal was scanned and entered into the system. This increased mustering costs materially and further associated costs increased the operations costs in the cattle area. Many of these costs are one off as 547,000 head were inducted into the IAR system for the first time. Once in the system they are capable of being tracked individually. Brandings within a year and cattle purchased will be the main source of IAR inductions. The staff have done an excellent job in this area.

While the costs have increased during the year the IAR systems have enabled AACo to have better data available to understand what is happening within the herds. This has led to better tracking of attrition (down 7,700 head on 2011) and provided better data to manage the herd.

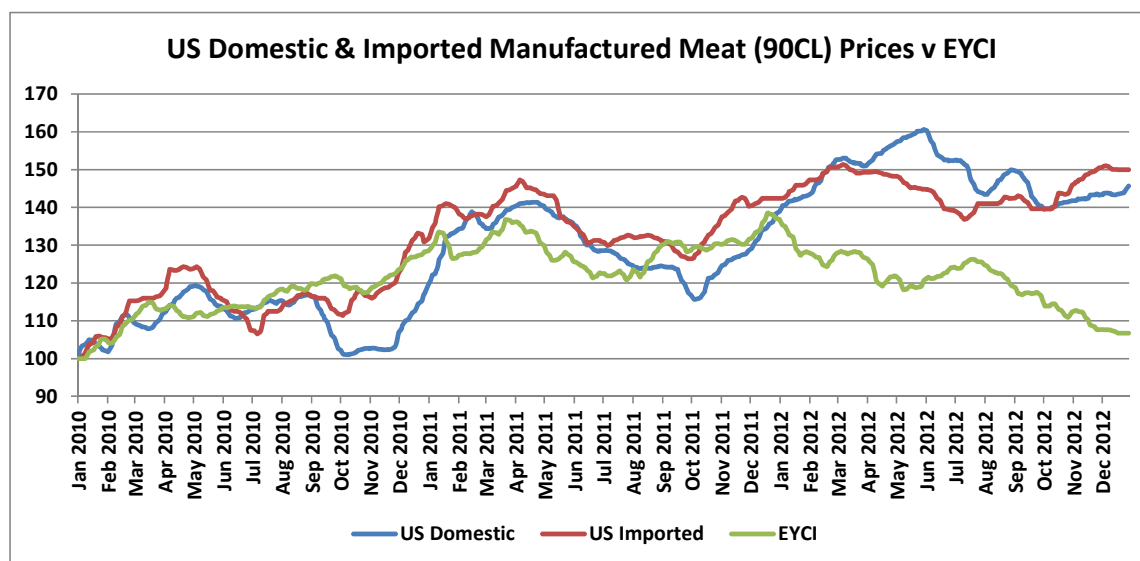
Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW (continued)

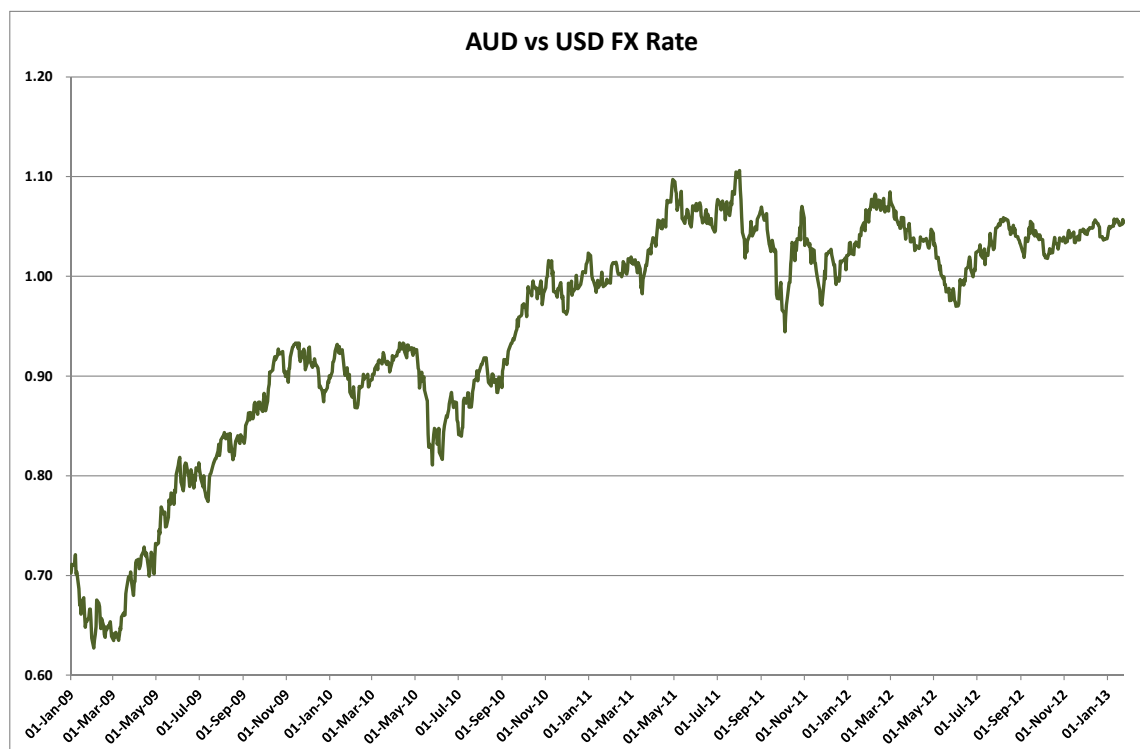
Grass fed cattle

With an eye to the shortage in US production, an expected tightening in Australian supply and fewer cattle on feed in Australia, we put much effort into adding weight to our herd and moved sales to the back half the year to take advantage of a traditional strengthening of cattle prices. The Australian market instead rapidly fell primarily due to lack of rain in Queensland, the ongoing Live Export situation and the high Australian Dollar. This has in turn led to a negative profit impact from non-cash related SGARA movements and has reduced our ability to realise cash in the short term.

The impact of this fall is demonstrated in the chart below that shows the relative performance of the Eastern Young Cattle Indicator ("EYCI") (Australia) to the US domestic and imported manufactured prices (external to Australia). These are relative prices to demonstrate a divergence between global and domestic prices. This chart shows that from January 2012 US prices increased 5.4% while the EYCI fell 22.2%.



The continued high Australian Dollar exchange is also dampening producer returns in Australia



Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW (continued)

Wagyu cattle

Herd continued to add value and perform well. External Wagyu sales also proved profitable.

Breeding Herd

Brandings have been excellent due to, improved management and the impact of genetic changes made to the herd over recent years and the ability to wean young calves with improved management practices. These extra brandings have also led to a temporary increase in labour costs.

Bulls are now being used more efficiently which has required increased testing but has led to less bull purchases in 2012.

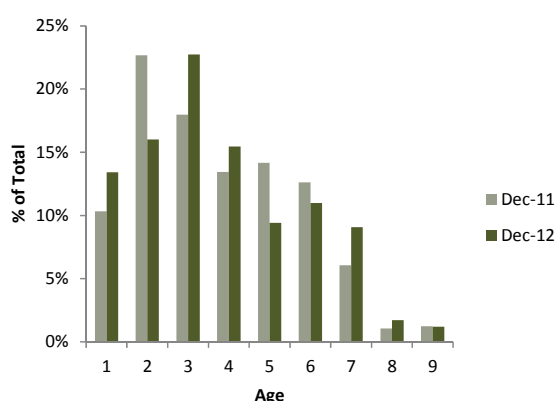
Herd

The herd composition is shown in the table below

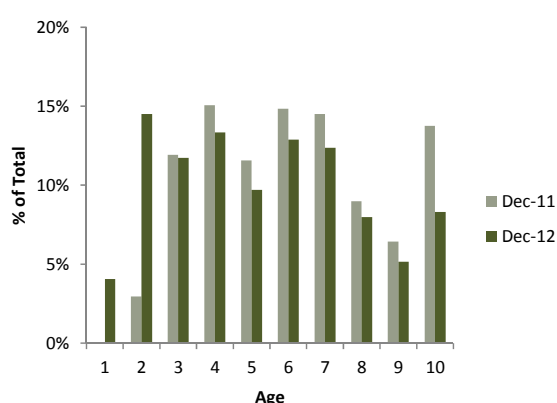
Herd Composition	2012	2011	2010
Composites/Bos Indicus	520,913	521,407	464,899
Wagyu	64,504	56,107	41,007
Unbranded calves	96,323	88,077	71,238
Totals	681,740	665,591	577,144
Feedlot	40,338	39,305	41,675
Trading	189,204	184,114	239,613
Breeders/Bulls/Stud/Unbranded calves	452,198	442,172	295,856
Totals	681,740	665,591	577,144

The age profile of the productive bulls and productive cows is show below

Age Profile of Bull Productive



Age Profile of Cow Productive



Farming Operations

Farming yields continued to perform and farmgate prices were within budget expectation. The table below sets out the areas harvested, yields and farmgate prices.

By Crop	Ha.	Production	Yield/ha	Ex farmgate income per unit
Cotton	2,232	20,517 bales	9.2 bales	\$521
Wheat	5,545	16,227 MT	2.9	\$268
Chickpeas	2,812	5,477 MT	1.9	\$435
Sorghum	2,170	7,737 MT	3.6	\$141

Summer Crops

Cotton suffered flooding at Goonoo, which impacted yield by 10 - 20%. Wylarah offsite chemical drift impacted yield, with some minor flooding. Sorghum suffered flooding at Goonoo, impacting yield, causing late harvest and some areas of total crop loss. This impacted profit considerably.

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW (continued)

Winter Crops

Wheat at Goonoo had a great start and was of high quality. However the dry finish slightly impacted the yield. Wheat in Southern Queensland, and chickpeas had a dry finish. The chickpeas were planted to cotton country when the cropping program changed during 2012.

Other cost increases dampened farm gross margins and land access costs for Woodbine (2013 cotton) have been incurred and treated as a period cost in the result as they are not capable of being deferred.

Beef Group Operations

The Beef Group sold 16.9 million kgs (2011 - 17.0 million kgs) of boxed beef during the year.

The Beef Group continues to face pressure from the high AUD. Wagyu has faced competition from domestic Korean Hanwoo and US imports into Korea. Non-wagyu may not be competitive until AACo can control an abattoir.

Wagyu gross margins are similar to 2011 while non-wagyu margins are negligible. There has been some increased cost of operations during 2012 that arose as a result of the decision to consolidate our cold store activity.

Other Cost Areas

Overheads have increased over 2011 by around 5% due in part to the expansion of the senior management team as the operations are being established and expanded to manage the Darwin abattoir and the expanded sales in the Beef Group that will arise from the anticipated abattoir production.

Finance costs (net) are down on 2011 by 12.7% due to lower interest rates in 2012 on the unhedged portion of AACo's drawn debt, the maturity of a historical "callable swap" that continued to incur additional costs as interest rate fell and the benefits from the Syndicated bank facilities.

The company's three-year turnaround plan has come to a successful end with the delivery of an invigorated herd and improved physical metric outcomes. This has unfortunately been offset by a level of financial outcome that does not reflect the turnaround that has taken place operationally across the Group.

Shareholder Returns

The Company derives its returns from its two main asset holdings, cattle and land. Cattle provide earnings/cash flow and land provides potential for capital growth. Underlying capital growth in land is not shown in net profit after tax but is reflected in the Statement of Comprehensive Income and directly into equity in the Statement of Financial Position.

	2012	2011	2010	2009	2008
Asset based returns					
Increase/(decrease) in land values (net of tax) represented in movements in the asset revaluation reserves as a percentage of property values	(4)%	1%	(9)%	(1)%	2%
EBITDA ⁽²⁾ return on average herd value post valuation	6%	14%	11%	(12)%	3%
Combined return on gross assets after notional tax at 30%	(3)%	1%	(5)%	(6)%	(2)%
Profit based returns					
Return on sales (EBITDA ⁽²⁾)/revenue	10%	15%	16%	(30)%	6%
3 year compound total shareholder return (TSR)	(8)%	(11)%	(23)%	(4)%	8%
3 year compound growth in ASX Small Ordinaries index ⁽¹⁾	10%	9%	(5)%	(1)%	(4)%
Per share statistics					
(Loss)/Earnings per share	(2.7) cents	3.6 cents	0.3 cents	(20) cents	(15) cents
Dividend paid during the year / share	-	-	-	-	7 cents
Net Tangible Assets (NTA) per share	2.04	2.15	2.23	2.42	2.70
NTA per share growth compounded over 3 years	(5)%	(7)%	(7)%	1%	7%

(1) 2008 – 2010 S&P Accumulation Index.

(2) EBITDA (earnings before interest, tax, depreciation and amortisation) is non-IFRS financial information.

Directors' Report (continued)

REVIEW OF FINANCIAL CONDITION

Liquidity and Capital Resources

The Group's debt facilities are adequate to address working capital requirements and stay in business capital expenditure for 2013.

At 31 December 2012 the Group had total drawn down term debt facilities of \$400 million which is repayable on 9 March 2015.

Asset and Capital Structure	2012 \$000	2011 \$000
Debts:		
Current interest-bearing loans and liabilities	2,919	56,421
Non-current interest-bearing loans and borrowings	407,627	311,148
Cash and short-term deposits	(22,362)	(23,369)
Net debt	388,184	344,200
Total equity	638,639	671,987
Total capital employed	1,026,823	1,016,187
Gearing (debt/debt+equity)	38%	34%

Dividend Reinvestment Plan

There were no dividends declared or paid in 2012 and therefore the Company's Dividend Reinvestment Plan (DRP) was inactive throughout the year.

Treasury Policies

Interest rates: Management's policies for determining the mix of fixed and floating interest rates are influenced by the undertakings within the banking facilities that stipulate a minimum 50% of the total term debt facilities must be hedged in relation to interest rate movements.

Foreign currency: The Company undertakes forward sales in its Wholesale Beef Group in foreign currency, primarily the US dollar and Japanese yen. All committed forward sales are hedged with foreign exchange contracts to coincide with the expected receipt of foreign funds spread over the year.

The Company commenced application of hedge accounting principles for interest rate swaps during 2011.

Risk Management and Compliance

The Board has ultimate responsibility for the oversight of risk management and compliance across the Company.

Risk is an integral part of the Company's decision making process and all risks and opportunities are adequately and appropriately assessed, to ensure that unreasonable risk exposures are minimised. The Company's risk and compliance frameworks ensure that all risks and compliance obligations are properly identified and managed, that insurances are adequate and that processes are in place to ensure compliance with regulatory requirements.

The Managing Director/Chief Executive Officer is accountable to the Board for the development and management of the Company's risk and compliance frameworks and is supported by the Chief Risk Officer, Chief Financial Officer and Company Secretary/General Counsel in terms of adopting appropriate risk management and compliance processes, including regular and transparent reporting to the Board. Each General Manager is responsible for the management of risk and compliance with relevant laws and regulations.

The key risks identified in the Company's Enterprise Risk Register are addressed through the risk and compliance frameworks, reducing risk exposure to key stakeholders.

Directors' Report (continued)

REVIEW OF FINANCIAL CONDITION (continued)

Risk Management and Compliance (continued)

The Company's risk and compliance frameworks are based on the following process:

- Board approval of a Strategic Plan, which encompasses the Company's vision and strategic goals, designed to meet the needs of stakeholders.
- As part of the Company's annual strategic planning process, the Risk Management Policy is reviewed and submitted to the Board for approval. The Enterprise Risk Register is reviewed and tested in line with changes to the Company's strategy by the Board and senior executive team.
- An Operating Plan is developed each year to translate the Company's long-term strategy into key operational objectives for the following twelve month period.
- Key Performance Indicators for the Managing Director/Chief Executive Officer and other key senior executives upon which they are rewarded are limited to the Company's objectives.
- Performance against the Operating Plan is reported to the Board on a monthly basis. This report provides the Board with the basis to assess if the Company's strategy is being executed effectively and allows the Board to assess management's performance against objectives on a regular basis. A monthly Compliance Report informs the Board of any regulatory, legal or compliance related issues.

The Board approved Risk Management Framework includes the following elements:

- The Board approved Risk Management Policy (published on the Company's website);
- The consolidated Enterprise Risk Register, detailing key strategic, operational, financial, Commercial & Asset Continuity, Legal & Compliance and People & Culture Risk Factors; and
- The Board Risk & Compliance Committee.

The Company faces a number of risks during the operation of the business. A sample of key risks faced by the company include:

- Workplace Health and Safety – given the physical and often remote nature of our operations and interaction with animals, workplace health and safety is of paramount importance to the Company. Significant effort and attention has been placed on internal policies and processes to ensure that employees are aware of their legal obligations and the productivity benefits that come from working safely. A tone of safety first is set at the top of the organization and is reinforced through the commitment of resources to a dedicated safety team and appointment of site safety coordinators for each location.
- Representation and Reporting – given the Company is listed on the ASX full, timely and correct representation and reporting to the market is vital. Management and the Board carefully monitors all communication with shareholders and the market to remain compliant with the Continuous Disclosure requirements and ensure stakeholders are aware of material impacts on the business.
- Accreditations, industry codes, licences and food safety – given the Company's involvement in the beef supply chain, food safety and associated regulations are critically important. Many areas of the Company's operations are accredited or licensed by a state or national regulator. These accreditations and licences are critical to the Company's ability to operate and access profitable markets. When choosing business partners and suppliers the Company also takes into account their accreditations, licenses and food safety standards.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During 2012 total equity decreased to \$642 million from \$672 million (2011), a decrease of \$30 million.

The movement was largely the result of:

- Increases in ordinary share capital (\$1.2 million) as a consequence of exercise of options under the Executive Option Plan; refer to note 23 for further information on movements in contributed equity.
- Decrease in revaluation reserves (\$22.7 million) and profits.

Refer to note 23 for further information on movements in contributed equity.

Directors' Report (continued)

SIGNIFICANT EVENTS AFTER BALANCE DATE

The company has announced that it will be changing its financial year-end from 31 December to 31 March, effective 31 March 2013. This change more closely aligns the company's reporting period with its sale cycles, assisting with forecasting, cash flow management and investment decisions and therefore the Board has determined that this change is in the best interests of the company. The Australian Securities and Investments Commission will be notified of this change. The company will therefore report on a three month accounting period from 1 January 2013 to 31 March 2013. It is expected that the results will be published by the end of April 2013. Normal half and full-year reporting periods will follow, commencing 1 April 2013.

There have been no other significant events after the balance date which requires disclosure in the financial report.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

This report otherwise omits information on likely developments and expected future results, the supply of which in the opinion of the Directors, would prejudice the interests of the Group.

ENVIRONMENTAL REGULATION AND PERFORMANCE

Some regulated areas of operation are:

- The operations of Goonoo and Aronui Feedlots are regulated by licences issued under the Environmental Protection Act 1994 and administered by the Queensland Department Agriculture, Fisheries and Forestry (DAFF). Each feedlot is required to report to the National Pollution Inventory each year with respect to water, air and soil quality. DAFF conducts audits of compliance with licence requirements at regular intervals. The Company recorded no breaches of licence requirements in 2012.
- The pumping of water from the Comet River for irrigation and feedlot use at Goonoo Station is subject to licensing under the Integrated Planning Act 1997 and the Water Act 2000. Regulations specify minimum water flows and heights in the river to allow sufficient environmental flows. Wylarah has a licence to harvest water from the Balonne River for irrigation purposes.
- The pumping of underground water for the prescribed purpose of 'Livestock Intensive' requires licensing and regular reporting and monitoring. The Company has several licences allowing this pumping subject to these regulations and conditions being met.
- Stock watering facilities, which utilise bores, require licensing in Queensland, and registration in the Northern Territory.
- Stock water facilities shared with Queensland Stock Routes are administered by local governments, guided by legislation and framework developed by the Queensland Government. Shared water facilities need to comply with registered Stock Route water agreement requirements. A Permit to Occupy is also required if this facility is unfenced within a station grazing area.
- Vegetation Clearing Permits are sought under the Vegetation Management Act 1999 (Queensland) for any clearing required for ongoing operations including but not limited to the development of areas for land use change and the installation of infrastructure such as fence lines and water development.
- The Company continues to be involved in consultation processes for example in the areas of Water Resource Planning, Wild Rivers legislation, and the conversion of land titles in relevant areas.
- The Company must abide by environmental and other obligations contained in Queensland's State Rural Leasehold Land Strategy in respect of the Company's pastoral leasehold interests in Queensland. The State Rural Leasehold Land Strategy is a framework of legislation, policies and guidelines supporting the environmentally sustainable, productive use of rural leasehold land for agribusiness.
- Northern Australia Beef Limited (NABL), a wholly owned subsidiary of the Group has been issued with an Exceptional Development Permit (EDP) to build an abattoir on land owned by NABL at Livingstone Farm, Noonamah, Stuart Highway, NT. That EDP contains stringent and detailed environmental monitoring requirements overseen and administered by Department of Lands, Planning and Environment (NT). NABL is not aware of any breaches of the EDP requirements to date, and strives to comply in all respects with the terms of the EDP.

Directors' Report (continued)

ENVIRONMENTAL REGULATION AND PERFORMANCE (continued)

The Board considers the Company has adequate systems in place for the management of its environmental requirements and is not aware of any material breach of environmental requirements of licence conditions as they apply to the Group.

The Company is aware of the reporting requirements under the *National Greenhouse and Energy Reporting Act (the Act)*. The Company conducted an assessment, which complies with the framework provided by the Department of Climate Change. This assessment concluded the Company's energy consumption and greenhouse gas emissions are below thresholds set for mandatory registration and reporting under the Act. Previously, the Company reported voluntarily under the 'Greenhouse Challenge Plus' (GHC) Program. This program ceased in June 2009, but the Company continues to collect greenhouse emissions and energy consumption data using the GHC reporting structure.

With respect to the Australian Federal Government's carbon schemes certain emissions from agriculture have been exempted. However the Company continues to monitor and assess carbon reduction schemes for risks and opportunities.

SHARE OPTIONS

Unissued Shares

As at the date of this report, there were 4,277,201 unissued ordinary shares under options and performance rights (4,233,261 at reporting date).

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.

Shares Issued as a Result of the Exercise of Options

During the financial year, there were no options to acquire shares in the Company exercised. Since the end of the financial year, no options have been exercised.

At the Company's Annual General Meeting on 11 May 2011, shareholders approved a new Performance Rights Plan, which has taken the place of the option plan for future incentive awards comprising performance rights. There will be no further grants of options under the option plan in the future. The rights of the existing option holders will remain until such time as the options are either exercised or the rights lapse.

On 2 April 2012, 43,950 Performance Rights were exercised under the AACo Performance Rights Plan (ASX Code AACAI), with the result that 43,950 shares in the Company were issued for nil consideration.

INDEMNIFICATION AND INSURANCE OF DIRECTORS' AND OFFICERS

Under the Company's Constitution, each of the Company's Directors, the Company Secretary and every other person who is an officer is indemnified for any liability to the full extent permitted by law.

The Company's Constitution also provides for the Company to indemnify each of the Company's Directors, the Company Secretary and every other person who is an officer to the maximum extent permitted by law, for legal costs and expenses incurred in defending civil or criminal proceedings.

Each Director has entered into a Deed of Access, Insurance and Indemnity, which provides for indemnity against liability as a Director, except to the extent of indemnity under an insurance policy or where prohibited by statute. The Deed also entitles the Director to access Company documents and records, subject to confidentiality undertakings.

The Company maintains Director's and Officer's insurance policies, to insure the Company's Directors, Company Secretary and those Directors and others of its subsidiaries. The Company has paid or has agreed to pay the premium for these policies.

The terms of the insurance contracts prohibit the Company from disclosing the level of premium paid and the nature of the liabilities insured.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 31 December 2012 outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report details the remuneration arrangements for key management personnel (KMP) of the Group, who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether executive or otherwise) of the parent Company.

For the purposes of this report, the term 'executive' encompasses the Managing Director/Chief Executive Officer, senior executives, general managers and company secretary of the Company and the Group.

The remuneration report is presented under the following sections:

1. Individual Key Management Personnel (KMP) disclosures.
2. Remuneration at a glance.
3. Board oversight of remuneration.
4. Non-executive Director (NED) remuneration arrangements.
5. Executive remuneration arrangements.
6. Company performance and link to remuneration.
7. Executive contractual arrangements.
8. Equity instruments disclosures.

1. Individual Key Management Personnel disclosures

Details of KMP of the Group are set out in the following sections.

(i) Directors

Mr. D. McGauchie	Chairman (non-executive)
Mr. D. Farley	Managing Director and Chief Executive Officer
Mr. A. Paliulis	Director (non-executive)
Dato' Sabri Ahmad	Director (non-executive)
Mr. S. Black	Director (non-executive)
Mr. D. Crombie	Director (non-executive)
Mr. T. Keene	Director (non-executive)
Dr. S. Dissanayake (appointed 27 April 2012)	Director (non-executive)
Mr. I. Allana	Alternate Director
Mr. D. Munang (appointed 13 March 2012)	Alternate Director

(ii) Directors who resigned or retired during the period

Mr. N. Burton Taylor (resigned 16 March 2012)	Director (non-executive)
Mr. C. Roberts (resigned 16 March 2012)	Director (non-executive)

(iii) Executives

Mr. T. Setter	Chief Operating Officer
Mr. P. Beale	Chief Financial Officer
Mr. B. Bennett	Company Secretary/General Counsel
Mr. G. Dober	General Manager People and Culture
Mr. P. Dempsey	General Manager – Beef Group
Mr. S. Cruden	General Manager – Northern Australian Beef
Mr. J. Strong (appointed on 1 November 2012)	General Manager – Marketing

On 25 January 2013, Mr. P. Beale (Chief Financial Officer) tendered his resignation. There were no other changes to KMP after the reporting date and before the date the financial report was authorised for issue.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

2. Remuneration at a glance

Remuneration strategy and policy

CEO and Key Management Personnel (KMP)

Consistent with contemporary Corporate Governance standards the Company's remuneration strategy and policies aim to set employee and executive remuneration that is fair, competitive and appropriate for the markets in which it operates and is mindful of internal relativities. The Company aims to ensure that the mix and balance of remuneration is appropriate to reward fairly, attract, motivate and retain senior executives and other key employees.

Specific objectives of this policy include the following:

- Provide fair and competitive fixed remuneration for all positions under transparent policies and review procedures. This is tested on a regular basis by independent benchmark assessment. The Company aims to position fixed remuneration in the 3rd quartile of selected comparators;
- Link CEO rewards to shareholder value accretion by providing appropriate equity (or equivalent) incentives linked to long-term Company performance and core values;
- Link senior executive rewards to achieving short and medium term key performance criteria;
- Provide Deferred Equity Awards (DEA) based on key short term objectives but defer vesting subject to service to support retention. The Board has increased the service expectation under DEA from one and two years to two and three years for additional retention impact;
- Provide competitive total rewards to attract and retain high calibre employees and executives;
- Have a meaningful portion of remuneration "at risk", dependent upon meeting pre-determined performance benchmarks, both short term (annual), and long term (3+ years) for the CEO; and
- Establish appropriate, demanding performance hurdles for any executive incentive remuneration.

The broad remuneration policy will be executed by the Company under a Total Targeted Reward framework. Appropriate remuneration policy settings will be achieved by consistently applying a clear remuneration strategy directed at supporting the Board approved business strategy with appropriate and flexible processes, policies and procedures established by the Board from time to time.

This senior executive remuneration strategy can be represented broadly, as follows:

	Total Fixed Remuneration (TFR) %	Short Term Incentives (STI) %¹	Long Term Incentive (LTI) %	Total Targeted Reward (TTR) %
CEO	50	45.5	50	100
Key Management	40 - 80	20 - 60	0	100

¹ Includes Deferred Equity Award (DEA) opportunity component

Only the CEO participates in the LTI plan. The Board believes incentives for the other executives are more effective when directed to key annual group and divisional objectives. Equity participation and therefore alignment with shareholders and retention is achieved by deferring a portion of the short term incentive subject to service. For 2012 allocations the deferral will be one and two years in equal proportion. Effective from 2013 the deferral period will be extended to be two and three years in equal proportion.

Board remuneration

The Board seeks to set aggregate remuneration at a level for the non-executive directors that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to the shareholders. Board remuneration is tested on a regular basis by independent benchmark assessment. The Company aims to position Board remuneration at or about the 75th percentile of comparable positions.

Use of Remuneration Consultants

The Staff & Remuneration Committee has engaged external consultants to ensure it is fully informed when making remuneration decisions. The Board has appointed CRA Plan Managers Pty Limited (CRA) as remuneration advisor to the Company.

The engagement of CRA has been based on an agreed set of protocols to ensure that the Staff & Remuneration Committee is provided with formal advice and recommendations, free from undue influence by members of the KMP to whom the recommendations may relate. The Board is satisfied the advice received CRA is free from undue influence from the KMP to whom the remuneration recommendations apply as CRA were engaged by, and reported directly to, the Chair of the Staff & Remuneration Committee. CRA also confirmed in writing to the Chair that the remuneration recommendations were made free from undue influence by the Group's KMP.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

2. Remuneration at a glance (continued)

Use of Remuneration Consultants (continued)

CRA have provided advice to the Company covering a range of remuneration, including the following:

- Remuneration Strategy Review;
- Report to the Board in respect of Chief Executive Officer, Chairman, and non-Executive Director Remuneration;
- Report to the Board in respect of Senior Executive remuneration;
- Long term incentives (LTI) and Deferred Equity Award (DEA) benefit recommendations for the CEO (LTI) and senior executives (DEA); and
- Valuation of Share Based Payments.

This independent review confirmed that Board and Executive remuneration at the Company were within market expectations and were reasonable. No material variations were noted and no material changes have been made arising from this review.

The fees paid to CRA in 2012 for all remuneration consulting services was \$15,211 (excluding GST and out-of-pocket expenses). Other services provided by CRA included employee share scheme (ESS) administration and share based payment valuation services. Fees paid to CRA in 2012 for all other services totalled \$25,589 (excluding GST and out-of-pocket expenses).

Voting and comments made at the company's 16 March 2012 Annual General Meeting ('AGM')

The company received 96% of 'for' votes in relation to its remuneration report for the year ended 31 December 2011. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

3. Board oversight of remuneration

Staff and Remuneration Committee

The Staff and Remuneration Committee currently comprises three independent non-executive Directors (NEDs) (Mr. D. Crombie (Committee Chairman), Mr. D. McGauchie, and Mr. T Keene) and one non-independent Director (Mr. A. Paliulis).

The Staff and Remuneration Committee is responsible for making recommendations to the Board on the remuneration arrangements of NEDs and executives.

The Staff and Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of NEDs and executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high performing Director and executive team. In determining the level and composition of executive remuneration, the Staff and Remuneration Committee may also seek external advice as set out above.

Mr. D. Farley, Managing Director/Chief Executive Officer, attends certain Staff and Remuneration Committee meetings by invitation but is not present during any discussions relating to his own remuneration arrangements.

Remuneration approval process

The Board is responsible for determining the remuneration of the Managing Director/Chief Executive Officer on the advice of the Staff and Remuneration Committee, which obtains independent remuneration advice as necessary. The Board approves the remuneration arrangements for the Managing Director/Chief Executive Officer and executives and all awards made under any long-term incentive (LTI) plan, which are then subject to shareholder approval, following recommendations from the Staff and Remuneration Committee.

The Board also sets the aggregate remuneration of NEDs, which is then subject to shareholder approval.

The Chairman oversees the Managing Director/Chief Executive Officer's recommendations for remuneration of senior executives with the assistance of the Staff and Remuneration Committee and independent remuneration advice, where necessary.

The Staff and Remuneration Committee approves, having regard to the recommendations made by the Managing Director/Chief Executive Officer, the level of any Company short-term incentive (STI) payments to employees, including KMP's and therefore the amount of any Deferred Equity Award entitlement. The level of STI payments to the Managing Director/CEO are determined separately by the Board. Any DEA entitlement resulting in an issue of securities for the Managing Director/CEO must be approved by shareholders.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

4. Non-executive Director (NED) remuneration arrangements

Remuneration policy

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually against fees paid to NEDs of comparable companies. The Board considers advice from external consultants when undertaking the annual review process.

The Company's constitution and the ASX Listing Rules specify that the aggregate remuneration of NEDs shall be determined, from time to time, by general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The latest determination was at the Annual General Meeting held on 24 May 2007, when shareholders approved an aggregate remuneration of \$875,000 per year.

Structure

The remuneration of NEDs consists of Directors' fees and committee fees. NED's do not receive retirement benefits other than superannuation, nor do they participate in any incentive programs.

Each NED receives a base fee for being a Director of the Company. An additional fee is also paid for each Board committee on which a Director sits, with a higher fee paid if the Director is a Chairman of a Board committee. The payment of additional fees for serving on a committee recognises the additional time commitment required by NEDs who serve on one or more committees.

NED's are encouraged to hold shares in the Company. Any shares purchased by the Directors are purchased on market, which is in line with the Group's overall remuneration philosophy and aligns NEDs with shareholder interests.

The remuneration of NEDs for the years ended 31 December 2012 and 31 December 2011 is detailed in table 1 on page 27 of this report.

5. Executive remuneration arrangements

Structure

Remuneration is determined as part of an annual performance review process, having regard to market factors, relevant comparative data, a performance evaluation process and independent remuneration advice, where necessary.

In the 2012 financial year, the executive remuneration framework consisted of the following components:

- Fixed remuneration; and
- Variable or 'at risk' remuneration comprising:
 - STI including the Deferred Equity Award (DEA); and
 - LTI for the Managing Director/CEO only.

The Company currently grants Performance Rights, subject to shareholder approval as a Long Term Incentive to the Managing Director/Chief Executive Officer. Deferred Equity Awards are provided to Senior Executives based on the level of STI earned each year. The DEA is granted as Performance Rights and subject to one (50%) and two (50%) year service vesting conditions. The last offer under this plan was made on 27 April 2012.

There is also a tax exempt share plan that may be utilised at the discretion of the Board for general employee equity participation. An Executive Option Plan, for which no further grants will be made, has a series of grants outstanding, the last of which expires on 1 January 2019.

The Board reviewed the incentive arrangements for executives and the Managing Director/CEO in the current period.

The Company encourages its executives to own the Company's shares, to further align their interests with the interests of other shareholders.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

5. Executive remuneration arrangements (continued)

The following table illustrates the structure of the Company's executive remuneration arrangements in 2012:

Remuneration Component	Vehicle	Purpose	Link to performance
Total fixed remuneration (TFR).	Comprises base salary, superannuation contributions and any 'packaged' benefits including FBT grossed-up on a Total Employment Cost (TEC) basis.	To reward executives market competitive remuneration with reference to role, market and experience and internal relativities.	No link to Company performance although it is reviewed annually and consideration is given to the performance of the Company and business unit in the remuneration review.
Short term incentive (STI) component.	Paid in cash and Deferred Equity (Performance rights).	Rewards executives for their contribution to achievement of Company and business unit outcomes, as well as individual key performance indicators (KPIs).	STI is calculated based on 50% Company performance where Profit after Tax is the key financial metric and 50% performance linked to relevant performance across internal measures of Financial, Safety, Compliance, and Operational drivers.
Long term incentive (LTI) component. (CEO only)	Performance rights.	To reward the CEO if the Company outperforms over the vesting period to align the CEO to shareholders and for retention purposes.	Both internal (EPS) and external (TSR) measures are applied as detailed below.

Total fixed remuneration

Executive contracts of employment do not include any guaranteed base pay increases. Total fixed remuneration comprises cash and other benefits and entitlements to provide a base level of remuneration which is both appropriate to the role and responsibilities, reflects current market conditions, the individual's seniority and internal relativities.

Total fixed remuneration is reviewed annually, as part of a review that takes into account the individual's performance, the overall performance of the Company in the case of the executives, the relevant business unit's performance in the case of business unit executives, and current comparative remuneration data.

Senior executives are given the opportunity to receive a portion of their fixed remuneration in forms other than cash, such as motor vehicles, under a framework that ensures the Company does not incur additional cost.

The fixed component of executives' base fixed remuneration is detailed in the tables 1 and 2 (refer pages 27 and 28).

Variable remuneration - short term incentive (STI)

The Company operates an annual STI program that is available to executives and employees and awards a cash bonus subject to the attainment of Company, business unit and individual measures which are set at the commencement of the performance period.

The aim of the STI is to link the achievement of the Company's annual and/or immediate financial and broader operational targets with the remuneration received by the executives and senior employees responsible for achieving those targets.

The total potential STI is set at a level so as to provide sufficient incentive to executives to achieve the operational targets and at a cost to the Company that is reasonable in the circumstances.

Actual STI payments awarded to each executive depend on the extent to which specific targets prescribed in the performance agreement for a financial year are met. The targets consist of a number of key performance indicators covering financial and non-financial, corporate and individual measures of performance. Individual key result areas include contribution to earnings and net profit after tax, safety and risk management, compliance, and business unit specific operational measures.

These measures were chosen as they represent the key drivers for the short term success of the business and provide a framework for delivering long-term value.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

5. Executive remuneration arrangements (continued)

Variable remuneration - short term incentive (STI) (continued)

Under the arrangements approved by the Board the general principles that will apply are that the executive will receive a Short Term cash Incentive and be granted a Deferred Equity Award that is generally set at 50%, subject to existing contractual conditions, of the Short Term cash Incentive earned. The Short Term cash Incentive will be paid within 3 months of the financial year end on which the executive's performance is being measured.

The Deferred Equity Award vests over the 2 years after the year the Short Term cash incentive is paid. The policy is that the Short Term cash Incentive will be determined and 50% of the Short Term cash Incentive will be granted as a Deferred Equity Award for which half vests 12 months after the payment of the Short Term cash incentive and the remaining half 24 months after the payment of the Short Term cash incentive. Vesting of the DEA is subject to the executive still being employed by the Group.

The Company has a Good Leaver and a Bad Leaver Policy. If the executive was a Bad Leaver, then any unvested Deferred Equity Awards will be automatically forfeited. If the executive was a Good Leaver, then the Board will consider the circumstances of the cessation of employment and may exercise its discretion to allow some or all of the unvested Deferred Equity Awards to vest (and be exercised).

The Board assesses the performance of the Managing Director/Chief Executive Officer against his targets and determines his actual STI payment based upon the recommendation of the Staff and Remuneration Committee. The Managing Director has a maximum STI of \$300,000 in his existing contract. The senior executives have a maximum STI set as a percentage of their respective TFR.

The Managing Director/Chief Executive Officer assesses the performance of other senior executives against their targets and determines the actual short term incentive payments with oversight by the Board through the Chairman and the Staff and Remuneration Committee.

STI bonus for 2012

The following table outlines the proportion of maximum STI that was earned and forfeited in relation to the 2012 financial year.

Name	Proportion of maximum STI earned in FY12	Proportion of maximum STI forfeited in FY12
D. Farley	90%	10%
T. Setter	61%	39%
P. Beale	84%	16%
B. Bennett	57%	43%
P. Dempsey	32%	68%
G. Dober	77%	23%
S. Cruden	61%	39%

Variable remuneration - long term incentive (LTI)

Only the Managing Director/CEO is currently offered an LTI. Board approved Performance Right grants are also subject to shareholder approval, as set out below.

The Managing Director/Chief Executive Officer

The Board has contractually determined a LTI entitlement equal to 50% of current total fixed remuneration for the Managing Director/Chief Executive Officer. Performance rights equal to this remuneration value are provided each year under the AACo Performance Rights Plan on terms approved by shareholders each year.

Under the LTI there are both internal (EPS) and external (TSR) performance benchmarks which are required to be achieved over a 3 year service vesting period for the Managing Director/Chief Executive Officer to receive any benefit. These benchmarks and the vesting for each year's offer are set out below. An allocation for 2013 will be presented to shareholders at the March 2013 AGM on similar terms.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

5. Executive remuneration arrangements (continued)

Variable remuneration - long term incentive (LTI) (continued)

The following grants were made to the Managing Director/Chief Executive Officer during 2012 and were approved by shareholders at the 2012 Annual General Meeting.

Relevant Year	Share Price at grant date (per share)	Number of Performance Rights Granted	Vesting
2012 - DEA	\$1.28	64,706	15 May 2013 to 15 May 2014
2012 - LTI	\$1.28	237,256	31 March 2015

The performance conditions were as follows:

1. External Performance Condition (TSR outperformance)

50% of the Performance Rights are subject to an external Performance Condition, namely, AACo's Total Shareholder Return (TSR) performance relative to the S&P/ASX Small Ordinaries Accumulation Index (ASX Code: XSOAI) measured over a three year Vesting Period.

Vesting of the Performance Rights subject to the TSR outperformance condition will be calculated based on the following percentile results in the table below:

AACo TSR Ranking versus S&P/ASX Small Ords Accumulation Index (XSOAI)	% of Performance Rights to vest.
Below the 50th percentile	0% vest
At the 50th percentile	50% vest
Between the 50th and 75th percentile	2% vesting on a straight line interpolation for each percentile ranking
At or above the 75th percentile	100% vest

The Company's TSR will be measured by an independent third party over the Vesting Period. The testing of the TSR outperformance condition will occur at the end of the Vesting Period.

2. Internal Performance Condition (EPS)

50% of the Performance Rights are subject to an internal Performance Condition based on the Company's earnings per share (EPS).

EPS is defined as Adjusted Net after Tax Profit per Ordinary Share, where Adjusted Net after Tax Profit is calculated as follows:

- **Annual reported Net Profit after Tax**
- **Less:** Valuation adjustments
- **Less:** any adjustment deemed fair and appropriate by the Board, in the Board's absolute discretion.

The Board in its absolute discretion may vary this formula from year to year to reflect the changing nature of the Group's operations and its operating environment.

Vesting of the Performance Rights subject to the EPS condition will be calculated based on the following compound % growth rates over the three financial years following the base year the Performance Rights are established.

EPS Compound Growth Rate	% of Performance Rights to vest.
Compound growth rate of less than 7.5% p.a.	0% vest
Compound growth rate of at least 7.5% p.a.	50% vest
Compound growth rate between 7.5% p.a. and 10% p.a.	2% vesting on a straight line interpolation for each 0.1% increment in EPS
Compound growth rate of 10% p.a. or more	100% vest

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

5. Executive remuneration arrangements (continued)

Variable remuneration - long term incentive (LTI) (continued)

Termination and change in control provisions

Under the terms of the LTI if the Managing Director/Chief Executive Officer ceases employment with the Company and holds Performance Rights, the ability of the Managing Director/Chief Executive Officer to retain his Performance Rights will depend on the circumstances in which the employment ceases. The Plan Rules define Bad Leavers and Good Leavers.

If the executive was a Bad Leaver, then the Performance Rights will be automatically forfeited. If the executive was a Good Leaver, then the Board will consider the circumstances of the cessation of employment and may exercise its discretion to allow some or all of the Performance Rights to vest (and be exercised).

A change of control event occurs when any person, either alone or together with any "associate" (as defined in the *Australian Corporations Act*) who does not hold a relevant interest in more than 50% of the issued shares of the Company acquires a relevant interest in more than 50% of the issued shares, or the Board concludes that there has been a change in control of the Company then one of the following will occur in respect of all unvested Performance Rights or Deferred Equity Awards. The Performance Rights or Deferred Equity Awards will vest on a pro-rata basis or at the discretion of the Board in certain circumstances.

Executive Option Plan – LTI plan used by AACo up to 30 June 2009

The Company previously utilised an Executive Option Plan (EOP) for the granting of non-transferable options to executives and middle management with more than twelve months' service at the grant date.

The existing options under the EOP have all vested.

There were no options granted in 2011 under the EOP and the Board does not intend to make further grants under this scheme.

Tax exempt share plan

All Company and Group employees paid under \$50,000 are eligible to be issued fully paid shares to the value of \$1,000 p.a. under the Tax-exempt Employee Share Plan (TESP). An employee must have been employed by the Group for 12 months to be eligible in the following year.

There were no shares issued under the TESP in 2011 or 2012.

Hedging of equity rewards

The Company prohibits employees from entering into arrangements to protect the value of unvested LTI awards. The prohibition includes entering into any scheme, arrangement or agreement (including options and derivatives) under which the employee may alter the economic benefit/risk derived from security holdings in the Company under unvested entitlements (e.g. unvested equity-based incentive or award grant).

No Director or officer or employee may deal in Company shares at any time for short term gain, including buying and selling shares in a three month period or using forward contracts, without approval of the Chairman, or in the case of the Chairman, a Director chosen by the Board for that purpose.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

6. Company performance and link to remuneration

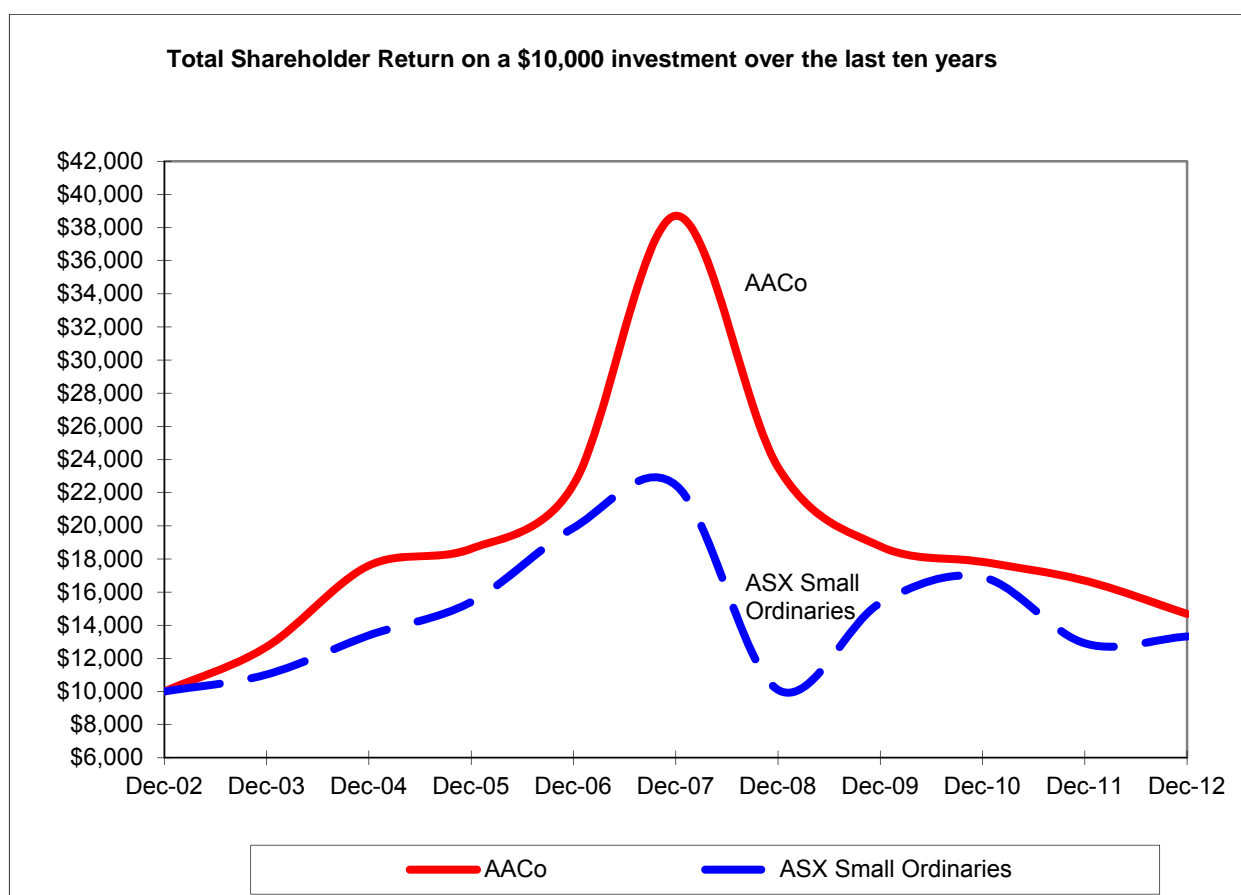
Company performance and its link to long term incentives

Earnings per share (EPS) on an annual calendar year basis are noted in the table below:

PER SHARE STATISTICS	2012	2011	2010	2009	2008
Basic EPS (to the nearest 1/10 cent)	(2.7) cents	3.6 cents	0.3 cents	(20.3) cents	(15.0) cents

The financial performance measure driving LTI payment outcomes is total shareholder return (TSR). TSR for the Company is defined as share price growth plus dividends, assuming the dividends are reinvested into the Company's ordinary shares.

As a guide to TSR, the graph below demonstrates the shareholder wealth created over the last five years, as compared with the benchmark ASX small ordinaries.



Series 1 = The Company total shareholder return.

Series 2 = S&P ASX small ordinaries.

7. Executive contractual arrangements

Remuneration arrangements for KMP are formalised in employment agreements. Details of these contracts are provided below.

Group employees are employed by the subsidiary company A.A. Company Pty Ltd. Until the closure of Chef's Partner during 2011 the employees of Chef's Partner were employed by Chef's Partner Pty Ltd.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

7. Executive contractual arrangements (continued)

Managing Director/Chief Executive Officer

The Managing Director/Chief Executive Officer is employed under an executive service agreement. The agreement has no fixed term and provides that:

- The Managing Director/Chief Executive Officer may terminate his employment by giving six months written notice. No STI's or LTI's will apply to any financial year during which employment ceases and the treatment of LTI options previously issued will be determined at the Board's discretion.
- The Company may terminate the Managing Director/Chief Executive Officer's employment by six months written notice or provide payment in lieu of the notice period based on the Managing Director/Chief Executive Officer's fixed component plus a variable component in recognition that termination during a financial year affects the ability to earn a performance incentive during that year. The treatment of LTI options previously issued will be determined at the Board's discretion.
- The Company may summarily terminate the Managing Director/Chief Executive Officer's employment if serious misconduct has occurred.

Managing Director/Chief Executive Officer - Mr. D. Farley

Mr. D. Farley was appointed Managing Director/Chief Executive Officer on 1 December 2009.

Under the terms of the present contract:

- The Managing Director/Chief Executive Officer receives fixed remuneration of \$633,600 per annum (excluding superannuation).
- The Managing Director/Chief Executive Officer's STI opportunity is a cash bonus up to a maximum of \$200,000 per annum plus a DEA of 50% of the cash bonus awarded in any year as performance rights. The terms of this DEA are the same as for the KMP's. This means that two thirds of the total STI award for any year will be paid in cash and one third as a DEA.
- The Managing Director/Chief Executive Officer will be entitled to an LTI benefit up to a maximum of 50% of fixed remuneration.
- After cessation of employment the Managing Director/Chief Executive Officer will be restrained from participating in a business in competition with the Company, in the beef trade industry and soliciting Company staff for the 12 month period from termination date.
- For a period of twelve months after employment ends, the Managing Director/Chief Executive Officer may not engage in business dealings with a customer or supplier of the Group with whom the Managing Director/Chief Executive Officer has had work related dealings during the previous six months with a view to causing the person to cease doing business or reduce the amount of business which the person would normally do with the Group.

The Managing Director/Chief Executive Officer's termination provisions are as follows:

	Notice period	Payment in lieu of notice	Treatment of STI on termination	Treatment of LTI on termination
Employer-initiated termination	6 months	Part or all of 6 months	Not eligible	Unvested portion terminates
Termination for serious misconduct	Nil	Nil	Not eligible	Unvested portion terminates
Employee-initiated termination	6 months	Part or all of 6 months	Not eligible	Unvested portion terminates

The Board has the discretion to determine that some or all of any unvested performance rights granted vest or cease to be restricted; or lapse or are deemed to be forfeited.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

7. Executive contractual arrangements (continued)

Other Key Management Personnel

The executive service agreements for other senior executives generally reflect that of the Managing Director/Chief Executive Officer.

Standard Key Management Personnel termination provisions are as follows:

	Notice period	Payment in lieu of notice	Treatment of STI on termination	Treatment of unvested options granted under EOP upon termination
Employer-initiated termination	6 months	Part or all of 6 months	Not eligible	(Employer initiated other than redundancy) - Vested Options may be exercised within 3 months. Unvested options lapse except at Board discretion
Termination for serious misconduct	Nil	Nil	Not eligible	Vested Options may be exercised within 3 months. Unvested options lapse except at Board discretion
Employee-initiated termination	3 to 6 months	Part or all of 3 to 6 months	Not eligible	Vested Options may be exercised within 6 months. Unvested options lapse except at Board discretion

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

Remuneration of Key Management Personnel

Table 1: Directors

	Short Term			Post-Employment	Share based payment		Total	Performance Related
	Salary & Fees	Cash Bonus (under STI) ⁷	Non-Monetary Benefits	Super-annuation	Short Term Incentive Shares	Performance Rights (under LTI)		
Directors	\$	\$	\$	\$	\$	\$	\$	%
<i>Non-executive Directors</i>								
D. McGauchie								
31/12/2012	189,280	-	-	17,035	-	-	206,315	-
31/12/2011	189,280	-	-	17,100	-	-	206,380	-
A.P. Paliulis								
31/12/2012	100,304	-	-	9,027	-	-	109,331	-
31/12/2011	82,764	-	-	7,449	-	-	90,213	-
Dato' Sabri Ahmad¹								
31/12/2012	70,304	-	-	6,327	-	-	76,631	-
31/12/2011	52,391	-	-	4,715	-	-	57,106	-
S. Black²								
31/12/2012	93,228	-	-	8,390	-	-	101,618	-
31/12/2011	20,731	-	-	1,866	-	-	22,597	-
D. Crombie²								
31/12/2012	104,320	-	-	9,389	-	-	113,709	-
31/12/2011	23,772	-	-	2,139	-	-	25,911	-
T. Keene²								
31/12/2012	110,304	-	-	9,927	-	-	120,231	-
31/12/2011	23,964	-	-	2,157	-	-	26,121	-
Dr. S. Dissanayake³								
31/12/2012	47,830	-	-	-	-	-	47,830	-
31/12/2011	-	-	-	-	-	-	-	-
I. Allana (alternate)								
31/12/2012	-	-	-	-	-	-	-	-
31/12/2011	-	-	-	-	-	-	-	-
D. Munang⁴ (alternate)								
31/12/2012	-	-	-	-	-	-	-	-
31/12/2011	-	-	-	-	-	-	-	-
<i>Executive Directors</i>								
D. Farley								
31/12/2012	633,600	180,000	-	26,400	40,884	313,967	1,194,851	44.76
31/12/2011	605,505	183,486	-	71,009	-	71,950 ⁶	931,950	27.41
<i>Former Directors</i>								
N. Burton Taylor⁵								
31/12/2012	20,828	-	-	1,875	-	-	22,703	-
31/12/2011	104,723	-	-	9,425	-	-	114,148	-
C.I. Roberts⁵								
31/12/2012	20,837	-	-	1,875	-	-	22,712	-
31/12/2011	99,008	-	-	8,911	-	-	107,919	-
Total Remuneration: Directors								
31/12/2012	1,390,835	180,000	-	90,245	40,884	313,967	2,015,931	26.53
31/12/2011	1,202,138	183,486	-	124,771	-	71,950	1,582,345	16.14

¹ Dato' Sabri Ahmad was appointed alternate Director on 22 November 2010 and resigned on 26 January 2011. On 4 April 2011 Dato' Sabri Ahmad was appointed a Director.

² D. Crombie, T. Keene and S. Black were appointed on 5 October 2011.

³ Dr. S. Dissanayake was appointed on 27 April 2012. As a condition of his employment with the Tavistock Group, all Directors fees payable to Dr. Dissanayake are paid to the Tavistock Foundation.

⁴ D. Munang was appointed an alternate Director on 13 March 2012.

⁵ N. Burton Taylor and C Roberts resigned on 16 March 2012.

⁶ \$71,950 granted in 2011. However \$44,184 was granted in respect of the 2010 year.

⁷ The cash bonuses paid during 2012 and 2011 relate to performance during the 2011 and 2010 financial years respectively.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

Remuneration of Key Management Personnel (continued)

Table 2: Other Key Management Personnel (KMP)

Other Key Management Personnel	Short Term				Post-Employment	Termination	Share-based payment	Total	Performance Related
	Salary & Fees	Cash Bonus (under STI) ⁴	Non-Monetary Benefits	Other	Super-annuation	Termination Benefits	Performance Rights (under STI)		
	\$	\$	\$	\$	\$	\$	\$	\$	%
<i>Current</i>									
T. Setter									
31/12/2012	285,584	182,630	16,800	-	43,651	-	70,185	598,850	42.22
31/12/2011	269,018	77,298	16,800	-	31,168	-	14,714	408,998	22.50
P. Beale¹									
31/12/2012	418,425	91,545	-	-	21,209	-	29,422	560,601	21.58
31/12/2011	364,193	-	-	-	50,566	-	-	414,759	-
B. Bennett									
31/12/2012	268,272	45,256	-	-	28,218	-	32,180	373,926	20.70
31/12/2011	264,526	55,376	-	-	28,791	-	10,614	359,307	18.37
P. Dempsey									
31/12/2012	235,895	18,833	-	-	22,925	-	14,733	292,386	11.48
31/12/2011	204,002	33,389	-	-	52,103	-	6,356	295,850	13.43
G. Dober									
31/12/2012	217,537	39,869	-	-	23,166	-	15,267	295,839	18.64
31/12/2011	170,584	16,690	-	-	16,855	-	3,177	207,306	9.58
S. Cruden²									
31/12/2012	205,000	48,440	10,000	-	22,810	-	-	286,250	16.92
31/12/2011	133,333	-	20,000	-	12,000	-	-	165,333	-
J. Strong³									
31/12/2012	50,000	-	-	27,523	6,977	-	-	84,500	-
31/12/2011	-	-	-	-	-	-	-	-	-
<i>Former</i>									
J. Sloman⁵									
31/12/2012	-	-	-	-	-	-	-	-	-
31/12/2011	88,461	-	-	-	11,340	9,785	-	109,586	-
Total Remuneration: Other KMP									
31/12/2012	1,680,713	426,573	26,800	27,523	168,956	-	161,787	2,492,352	23.61
31/12/2011	1,494,117	182,753	36,800	-	202,823	9,785	34,861	1,961,139	11.10

¹ P. Beale was appointed CFO on 19 January 2011.

² S. Cruden was appointed General Manager Northern Australian Beef on 1 May 2011

³ J. Strong was appointed General Manager Marketing on 1 November 2012 and received a sign-on fee of \$27,523.

⁴ All cash bonuses paid during 2012 and 2011 relate to performance during the 2011 and 2010 financial years respectively.

⁵ J. Sloman was appointed interim CFO on 25 October 2010 and resigned on 15 April 2011.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

8. Equity instrument disclosures

During 2012 568,815 performance rights were granted (2011: 497,917). There were no options granted during the period. Performance Rights awarded and vested during the year were as follows:

Terms and Conditions for each Grant during the year								Rights vested during the year	
31 December 2012	Rights awarded during the year No.	Award date	Fair value per rights at award date (\$)	Exercise price (\$)	Expiry date	First exercise date	Last exercise date	No.	%
<i>Executive directors</i>									
D. Farley Issue 1	64,706	27/04/2012	1.29	-	14/06/2013 to 14/06/2014	15/05/2013	15/05/2014	-	-
D. Farley Issue 2	237,256	27/04/2012	1.10	-	30/04/2015	31/03/2015	31/03/2015	-	-
<i>Other KMP</i>									
T. Setter	71,560	27/04/2012	1.29	-	24/05/2013 to 25/05/2014	24/04/2013	24/04/2014	-	-
P. Beale	44,426	27/04/2012	1.29	-	24/05/2013 to 25/05/2014	24/04/2013	24/04/2014	-	-
B. Bennett	23,761	27/04/2012	1.29	-	24/05/2013 to 25/05/2014	24/04/2013	24/04/2014	-	-
P. Dempsey	7,379	27/04/2012	1.29	-	24/05/2013 to 25/05/2014	24/04/2013	24/04/2014	-	-
G. Dober	15,621	27/04/2012	1.29	-	24/05/2013 to 25/05/2014	24/04/2013	24/04/2014	-	-
S. Cruden	18,980	27/04/2012	1.29	-	24/05/2013 to 25/05/2014	24/04/2013	24/04/2014	-	-
Total	483,689							-	-

There were no alterations to the terms and conditions of performance rights and options granted as remuneration since their grant date. There were no shares issued to key management personnel in relation to performance rights and on the exercise of options during the period.

DIRECTORS' MEETINGS (UNAUDITED)

The number of Meetings of Directors (including meetings of Committees of Directors) held during the year and the number of meetings attended by each Director is as follows:

	Directors' meetings		Audit Committee		Staff and Remuneration Committee		Risk and Compliance Committee		Nomination Committee	
	A	B	A	B	A	B	A	B	A	B
Mr. D. McGauchie	9	9	6	6	4	4	5	5	1	1
Mr. D. Farley ^β	9	9	*	6	*	4	*	5	*	*
Mr. A. Paliulis	9	8	*	1	4	3	5	4	1	1
Mr. N. Burton Taylor (resigned 16 March 2012)	4	4	2	2	2	2	*	1	1	1
Mr. C. Roberts (resigned 16 March 2012)	4	3	2	1	2	1	*	-	1	1
Dato' Sabri Ahmad	9	5	*	1	*	-	*	-	1	1
Mr. T Keene ^Ω	9	8	*	4	4	4	5	4	1	1
Mr. D Crombie	9	9	6	5	4	4	*	3	1	1
Mr. S Black	9	9	6	6	*	4	*	5	1	1
Dr. S. Dissanayake (appointed 27 April 2012)	5	5	*	1	*	-	*	-	Nil	-
<i>Alternate Directors</i>										
Mr. I. Allana	9	Nil	-	-	-	-	-	-	-	-
Mr. D. Munang (appointed 13 March 2012)	9	5	-	-	-	-	-	-	-	-

A = Number of meetings held during the time the Director held office or was a member of the committee during the year

B = Number of meetings attended

* Not a member of the relevant committee

^Ω Sought and was granted leave of absence for one Directors' meeting

^β Mr Farley is invited to all Committee meetings but as an executive is not a member of those Committees

Directors' Report (continued)

DIRECTORS' MEETINGS (UNAUDITED) (continued)

Committee membership

As at the date of this report, the Company had an Audit Committee, Staff and Remuneration Committee, a Risk and Compliance Committee and a Nomination Committee.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

Auditor's Independence Declaration to the Directors of Australian Agricultural Company Limited

In relation to our audit of the financial report of Australian Agricultural Company Limited for the financial year ended 31 December 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



Mike Reid
Partner
31 January 2013

Directors' Report (continued)

NON AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	2012	2011
	\$	\$
Advisory services	12,251	27,500
Tax related advice	-	11,330
	<u>12,251</u>	<u>38,830</u>

Signed in accordance with a resolution of the Directors



Donald McGauchie
Chairman

Brisbane
31 January 2013

Corporate Governance Statement

The Board is responsible for establishing the corporate governance framework of the Group having regard to the ASX Corporate Governance Council (CGC) published guidelines as well as its corporate governance principles and recommendations. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summarises the Company's compliance with the CGC's recommendations as at the date of this report.

Recommendation	Comply Yes / No	Reference / Explanation	ASX Listing Rule (LR) /CGC Recommendation
Principle 1 - Lay solid foundations for management and oversight			
1.1 Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Yes	Page 36	ASX CGC 1.1
1.2 Companies should disclose the process for evaluating the performance of senior executives.	Yes	Refer to remuneration report	ASX CGC 1.2
1.3 Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes	-	ASX CGC 1.3

Recommendation	Comply Yes / No	Reference / Explanation	ASX LR / Recommendation
Principle 2 - Structure the Board to add value			
2.1 A majority of the Board should be independent Directors.	No (50/50)	Page 37	ASX CGC 2.1
2.2 The chair should be an independent Director.	Yes	Page 37	ASX CGC LR 2.2
2.3 The roles of chair and chief executive officer (CEO) should not be exercised by the same individual.	Yes	Page 37	ASX CGC 2.3
2.4 The Board should establish a Nomination Committee.	Yes	Page 40	ASX CGC 2.4
2.5 Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.	Yes	Page 38	ASX CGC 2.5
2.6 Companies should provide the information indicated in the guide to reporting on Principle 2.	Yes	-	ASX CGC 2.6

Corporate Governance Statement

Recommendation		Comply Yes / No	Reference / Explanation	ASX LR /CGC Recommendation
Principle 3 - Promote ethical and responsible decision-making				
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> The practices necessary to maintain confidence in the Company's integrity; The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and The responsibility and accountability of individuals for reporting and investigating reports of unethical practices. 	Yes	Website	ASX CGC 3.1
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measureable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.	Yes	Page 39	ASX CGC 3.2
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	Yes	Page 39	
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Yes	Page 39	
3.5	Companies should provide the information indicated in the guide to reporting on Principle 3.	Yes	Page 39	ASX CGC 3.3
Recommendation		Comply Yes / No	Reference / Explanation	ASX LR /CGC Recommendation
Principle 4 - Safeguard integrity in financial reporting				
4.1	The Board should establish an Audit Committee.	Yes	Page 40	ASX CGC 4.1
4.2	The Audit Committee should be structured so that it: <ul style="list-style-type: none"> Consists only of non-executive Directors. Consists of a majority of independent Directors. Is chaired by an independent chair, who is not chair of the Board. Has at least three members. 	Yes	Page 40	ASX CGC 4.2 ASX LR 12.7
4.3	The Audit Committee should have a formal charter.	Yes	Page 40	ASX CGC 4.3
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Yes	Page 40 and Website	ASX CGC 4.4
Recommendation		Comply Yes / No	Reference / Explanation	ASX LR /CGC Recommendation
Principle 5 - Make timely and balanced disclosure				
5.1	Companies should establish written policies designed to ensure compliance with ASX listing rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	Website	ASX CGC 5.1
5.2	Companies should provide the information indicated in the guide to reporting on Principle 5.	Yes	Page 43	ASX CGC 5.2

Corporate Governance Statement

Recommendation	Comply Yes / No	Reference / Explanation	ASX LR /CGC Recommendation
Principle 6 - Respect the rights of shareholders			
6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Page 43	ASX CGC 6.1
6.2 Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes	-	ASX CGC 6.2

Recommendation	Comply Yes / No	Reference / Explanation	ASX LR /CGC Recommendation
Principle 7 - Recognise and manage risk			
7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Page 41	ASX CGC 7.1
7.2 The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Yes	Page 41	ASX CGC 7.2
7.3 The Board should disclose whether it has received assurance from the Chief Executive Officer (CEO) [or equivalent] and the Chief Financial Officer (CFO) [or equivalent] that the declaration provided in accordance with section 295A of the <i>Corporations Act</i> is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks	Yes	Page 42	ASX CGC 7.3
7.4 Companies should provide the information indicated in the guide to reporting on Principle 7.	Yes	Page 42 and website	ASX CGC 7.4

Recommendation	Comply Yes / No	Reference / Explanation	ASX LR /CGC Recommendation
Principle 8 – Remunerate fairly and responsibly			
8.1 The Board should establish a Remuneration Committee.	Yes	Page 42	ASX CGC 8.1
8.2 The Remuneration Committee should be structured so that it: <ul style="list-style-type: none"> Consists of a majority of independent directors; Is chaired by an independent chair; and Has at least three members. 	Yes	Page 42	-
8.3 Companies should clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives.	Yes	Refer to remuneration report	ASX CGC 8.2
8.4 Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes	Page 42 and website	ASX CGC 8.3

Corporate Governance Statement

The Company's corporate governance practices were in place throughout the year ended 31 December 2012, except to the extent as may be noted in this statement.

Various corporate governance practices are discussed within this statement. For further information on the corporate governance policies adopted by the Company, refer to our website: www.aaco.com.au/investors-and-media/corporate-governance/.

Board Functions

The Board is responsible to the Company's shareholders for the overall governance and performance of the Company.

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of Directors and for the operations of the Board.

The responsibility for the operation and administration of the Group is delegated, by the Board, to the Managing Director/CEO and the executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Managing Director/CEO and the executive management team.

Whilst at all times the Board retains full responsibility for guiding and monitoring the Group, in discharging its stewardship it makes use of Board committees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the Board. The Chairman of each committee reports on any matters of substance at the next full Board meeting and all committee minutes are provided to the Board. There are currently four Board committees:

- Audit
- Staff and Remuneration
- Nomination
- Risk and Compliance

The roles and responsibilities of these committees are discussed throughout this corporate governance statement.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including:

- Board approval of a strategic plan designed to meet stakeholders' needs and manage business risk.
- Ongoing development of the strategic plan and approving initiatives and strategies designed to ensure the continued growth and success of the entity.
- Implementation of budgets by management and monitoring progress against budget – via the establishment and reporting of both financial and non-financial key performance indicators.

Other functions reserved to the Board include:

- Approval of the annual and half-yearly financial reports.
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures.
- Ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored.
- Reporting to shareholders.
- Approval and appointment of the Managing Director/CEO.

The matters which are reserved for the Board are contained in the Board's Charter, which is available on the Company's website.

Corporate Governance Statement

Structure of the Board

The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the annual report are included in the Directors' Report.

The Board is currently comprised of eight Directors, four of whom are determined by the Board to be independent. AACo's Chairman, Donald McGauchie, is an independent director.

It is the Board's responsibility to assess and monitor the independence of Directors, as required under the ASX Corporate Governance Principles and Recommendations ('CGPR') published by the ASX Corporate Governance Council.

Under the Company's Board Charter, the Board will determine whether or not a Director is independent. For the purposes of making a determination as to whether a Director is independent the Board will consider, amongst other things, whether or not the Director:

- Is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- Within the last three years has been employed in an executive capacity by the Company or one of its subsidiary companies;
- Has been in the last three years, a principal of a material professional adviser or a material consultant to the Company or other member of the Group, or an employee materially associated with the service provided;
- Is affiliated with a material customer or supplier of the Company or other member of the Group, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

In accordance with the guidelines above, the following Directors of the Company during the period were determined to be independent.

Mr. D. McGauchie	Chairman, Non-executive Director	Appointed 19 May 2010
Mr. T. Keene	Non-executive Director	Appointed 5 October 2011
Mr. S. Black	Non-executive Director	Appointed 5 October 2011
Mr. D. Crombie	Non-executive Director	Appointed 5 October 2011
Mr. N. Burton Taylor	Non-executive Director	Appointed 12 June 2009 and resigned 16 March 2012
Mr. C. Roberts	Non-executive Director	Appointed 12 June 2009 and resigned 16 March 2012

The following Directors of the Company during the period were determined to be non-independent:

Mr. A. Paliulis	Mr. A. Paliulis who was appointed on 12 June 2009, is not considered independent as he is an employee of a related entity of major (16.89%) shareholder IFFCO Poultry Co SDN BHD, a wholly owned subsidiary of FELDA IFFCO SDN BHD.
Dato' Ahmad Sabri	Dato' Ahmad Sabri who was appointed on 4 April 2011 is not considered independent as he is an officer of a related entity of major (16.89%) shareholder IFFCO Poultry Co SDN BHD, a wholly owned subsidiary of FELDA IFFCO SDN BHD.
Dr. Shehan Dissanayake	Dr. Shehan Dissanayake who was appointed on 27 April 2012 is not considered independent as he is an officer of Tavistock Group which has an operating unit Southeast Point which is a major (13.08%) shareholder of the Company.
Mr. D. Farley	Mr. D. Farley who was appointed 1 December 2009 is not considered independent by virtue of his executive office as Managing Director and Chief Executive Officer.

For the period 1 January 2012 to 16 March 2012, the Board comprised a majority of independent directors (6:3).

For the period 16 March 2012 to 27 April 2012, the Board comprised a majority of independent directors (4:3).

Corporate Governance Statement

Structure of the Board (continued)

For the period since 27 April 2012, the Board has comprised an equal number of independent and non-independent directors (4:4). Accordingly the Board has not had a majority of independent Directors since 27 April 2012. The Board is of the view that the Board's composition since 27 April 2012 serves the interests of shareholders for the following reasons:

- The Board has a majority of non-executive Directors and the Chairman, Mr. D. McGauchie, is an independent, non-executive Director. Mr. D. McGauchie has a casting vote ensuring the balance of power at Board level is retained by independent non-executive directors.
- Having regard to the size of IFFCO Poultry Co SDN BHD's investment and the absence of any other relationship between the Company and IFFCO Poultry Co SDN BHD, the Board believes IFFCO Poultry Co SDN BHD's interests are independent of management and are aligned with those of all shareholders.
- Having regard to the size of Southeast Point's investment and the absence of any other relationship between the Company and Southeast Point or the Tavistock Group, the Board believes Southeast Point's interests are independent of management and are aligned with those of all shareholders.
- All Board committees are comprised only of non-executive Directors and each Chair of a committee is an independent Director.

There are procedures in place, agreed by the Board, to enable Directors in furtherance of their duties to seek independent professional advice at the Company's expense.

The term in office held by each Director in office at the date of this report is as follows:

Name	Term in office	Total term (including broken periods)
<i>Directors</i>		
Mr. D. McGauchie	2 years 9 months	2 years 9 months
Mr. D. Farley	3 years 2 months	3 years 2 months
Mr. A. Paliulis	3 years 8 months	3 years 8 months
Dato' Sabri Ahmad	1 year 9 months	1 year 9 months
Mr. T. Keene	1 year 3 months	1 year 3 months
Mr. S. Black	1 year 3 months	1 year 3 months
Mr. D. Crombie	1 year 3 months	1 year 3 months
Dr. Shehan Dissanayake	9 months	9 months
Mr. C. Roberts ¹	2 years 9 months	10 years 1 month
Mr. N. Burton Taylor ¹	2 years 9 months	10 years 1 month
<i>Alternate Directors</i>		
Irfan Allana	2 years 3 months	2 years 3 months
Denys Collin Munang	10 months	10 months

¹ Retired 16 March 2012.

For further biographical details, refer to pages 1 to 4 inclusive.

For additional details regarding Board appointments, please refer to our website.

Performance

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators.

Board Renewal and Succession Planning

Board succession planning is an important part of the governance process. An extensive evaluation, review and succession planning process was undertaken by the Board in 2011 with the assistance of independent professional consultants.

On 27 April 2012, Dr. Shehan Dissanayake was appointed a director.

In 2012 the Board undertook a review of the AACo Board evaluation process. A copy of the Company's Board Evaluation Process is available on the Company's website.

The Board ensures that new directors are inducted to the company appropriately, including visits to specific company operations and briefings by key executives.

Corporate Governance Statement

Trading Policy

Under the Company's Share Trading Policy, a Director, executive or employee must not trade in any securities of the Company at any time when they are in possession of unpublished, price sensitive information in relation to those securities.

Before commencing to trade, executives and employees must first notify and obtain the approval of the Company Secretary to do so and a Director must first obtain the approval of the Chairman.

As required by the ASX Listing Rules, the Company notifies the ASX of any transactions completed by Directors in the securities of the Company.

A copy of the Company's Share Trading Policy is also available on the Company's website.

Code of Conduct

The Board has established a Code of Conduct with the objective of enhancing the Company's reputation for fair and responsible dealing and to help to maintain the high standards of corporate and individual behavior throughout the Company. The Company's Code of Conduct aims to protect the interests of shareholders, customers, employees and suppliers by promoting a culture of accountability and responsibility.

A copy of the Company's Code of Conduct is available on the Company's website.

Diversity Policy

AACo established a formal diversity policy in January 2012. The Company is committed to equal opportunity and diversity. Diversity of gender, sexual orientation, age, ethnicity, race, religion, culture and background, style, skills and experience all add to our capability to develop and maintain a high performing workforce with the ability to take advantage of the diverse challenges and opportunities we face in Australia and around the globe.

Broad diversity is encouraged and valued. During 2012 AACo commenced an ongoing analysis to better understand its diversity profile and opportunities. While the Company is committed to fostering diversity at all levels, culture and gender diversity have been and continue to be a priority for the Group.

The table below outlines the diversity objectives established by the Board, the steps taken during the year to achieve these objectives, and the outcomes.

Objectives	Plan	Outcome
Enhance reporting capability of broad diversity factors (in addition to gender)	Implement a Human Resources Information System to capture and report on data	Implementation will be completed in early 2013
Conduct development programs tailored for female employees	Women in Leadership Conference Establish relevant e-Learning programs	Program held in November 2012 Platform has been developed and numerous programs launched
Promote the hiring of females	Develop the AACo website to support this objective Develop AACo advertising and promotional material	New AACo website launched New advertising and promotional materials developed
Enhance the AACo Graduate Program	Increase numbers of graduates Develop editorial features (internal and external promotion)	86% of AACo graduates are female in 2013 Female graduates featured widely in internal and external media
Promote the AACo Parental Leave Policy	Policy was strengthened to include a company-funded return to work bonus	Policy implemented and applied in 2012

During the 2012 year no appointments were made which would alter the gender diversity within senior management. Whilst there are no female Directors on the AACo Board at the present time, the proportion of female employees to male employees within the AACo Group as at 31 December 2012 was 36% (2011: 36%) female and 64% (2011:64%) male. There is strong female representation within the pastoral station workforce with 31% (2011: 34%) of employees at this level being female.

The Charter for the Nomination Committee has also been reviewed and a specific diversity criteria was identified and included to ensure diversity is considered in the Board renewal process.

Corporate Governance Statement

Diversity Policy (continued)

The duties of the Staff and Remuneration Committee include:

- Reviewing and making recommendations to the Board on the diversity policy to ensure it is in line with applicable legislation and governance principles;
- In conjunction with the Nomination Committee ensuring the application of diversity policy to Board appointments and succession;
- Making recommendations to the Board regarding the diversity policy and strategies to address Board diversity;
- Monitoring the application of diversity policy to executive appointments and successions;
- Review and report on the relative proportion of women and men in the AACo workforce; and
- Reviewing remuneration by gender.

The setting of objectives and reporting to be provided in the 2012 annual report will be consistent with ASX Principle 3.

Nomination Committee

The Board has established a Nomination Committee, which is responsible for assessing the necessary and desirable competencies of Board members, reviewing Board succession plans and working with the Chairman in evaluating the Board's performance. The Nomination Committee comprises non-executive Directors and the following Directors were committee members in 2012:

Mr. D. McGauchie (Chair)
Mr. A. Paliulis
Mr. T. Keene
Mr. S. Black
Mr. D. Crombie
Dato' Ahmad Sabri (appointed 24 January 2012)
Dr. Shehan Dissanayake (appointed 27 April 2012)
Mr. N. Burton Taylor (retired 16 March 2012)
Mr. C. Roberts (retired 16 March 2012)

For details of Directors attendance at meetings of the Nomination Committee, refer to the Directors' Report.

For additional details regarding the role and responsibilities of the Nomination Committee including its charter, please refer to our website.

Audit Committee

The Board has established an Audit Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the Audit Committee.

The composition of the Audit Committee changed during the period due to resignations and new appointments of Board members. The members of the Audit Committee during the year were:

Mr. S. Black (appointed Chair 16 March 2012)
Mr. D. McGauchie
Mr. D. Crombie
Mr. N. Burton Taylor (Chair until retirement from Board on 16 March 2012)
Mr. C. Roberts (retired 16 March 2012)

All members of the Audit Committee are non-executive directors.

The Chair of the Audit Committee liaises with the Chair of the Risk and Compliance Committee on those matters where both Committees have common responsibilities which include risk management, compliance and internal control. The Chair of the Risk and Compliance Committee has a standing invitation to attend each Audit Committee meeting.

The members of the Audit Committee and their qualifications are shown in this annual report on pages 1 to 3 of the Directors' Report.

For details on the number of meetings of the Audit Committee held during the year and the attendees at those meetings, refer to the Directors' Report.

For additional details regarding the Audit Committee including a copy of its charter, please refer to our website.

Corporate Governance Statement

Risk and Compliance Committee

The Board and Management have continued to demonstrate their focus and commitment to managing material business risks in order to meet sustainability, profitability and stakeholder goals. A culture of transparency, analysis and proper action underpin the success of risk management at AACo.

The Chief Risk Officer and Management have supported the Risk and Compliance Committee (formerly the Board Risk Management Committee, which was renamed the Board Risk & Compliance Committee on 3 December 2012) in helping the Board fulfil its commitment to oversee the Company's risk and compliance profile and respond quickly to changes in the risk and compliance landscape facing the Company. The Risk and Compliance Committee, made up of three Board members and one independent consultant, met five times during 2012 and was regularly attended by the Managing Director/CEO, other Directors, the CFO, the CRO and by other invited staff from time to time.

The members of the Risk and Compliance Committee during the year were:

Mr. T. Keene (Chair, as from 19 October 2012)
Mr. D. McGauchie
Mr. A. Paliulis
Mr. Jeff Carmichael¹ (Retired as Chair on 19 October 2012)

¹ External consultant

The Board is responsible for the overall corporate governance and risk management of AACo. It has responsibility for overseeing AACo's risk profile, for approving and overseeing the framework for managing risk and for setting appropriate tolerance levels for each risk group. The tasks of undertaking and assessing risk management and internal control effectiveness are delegated to Management through the Managing Director/CEO, including responsibility for design, day-to-day implementation, and management of the Company's risk management and internal control systems. Management reports to the Risk and Compliance Committee and then to the Board on the Company's key risks and the extent to which it believes these risks are being adequately managed.

At least once a year, the Company carries out a formal risk review, including revision of insurance policies that the Company has in place. Summaries of the Company's material business risks are kept in the Enterprise Risk Register. Each identified risk is linked to a business objective and a tolerance for risk is determined by the Board. The Register contains risk summaries which indicate the risk drivers, the inherent risk, the current controls, the mitigants in place to manage those risks and the residual risk after treatment. Also included in the Register is the plotting of risks on a risk matrix by inherent risk. The Company has a risk aware culture, and all members of the Management team have a responsibility for risk in their area.

Management carries out risk specific management activities in six broad families:

- **Strategic Risks** – the risks associated with determining the direction of the business
- **Production Risks** – the risks associated with producing the volume and quality of cattle, beef and crops
- **Financial Risks** – the risks associated with the volatility in commodity prices, availability of funding and counterparty credit
- **Commercial and Asset Continuity Risks** – the risks associated with on-going business operations
- **Legal and Compliance Risks** – the risks associated with breaches of the law and regulations
- **People and Culture Risks** – the risks associated with the employment of staff

To assist stakeholders in understanding the nature of the risks faced by the Company, the Board has prepared a list of key risks, taken from within the risk families identified above, as part of this Principle 7 disclosure. This list is not exhaustive, and will be subject to change based on underlying market events. The key risks are:

- Workplace Health And Safety
- Representation & Reporting
- Accreditations, Industry Codes, Licences and Food Safety
- Animal Welfare
- Environmental
- Reputation & Brand
- Market Development and Access

The Board has a number of mechanisms in place to ensure that Management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses the Company's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk.
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets.

Corporate Governance Statement

Risk and Compliance Committee (continued)

The Board approved Risk Management Framework includes the following elements:

- The Board approved Risk Management Policy (published on the Company's website);
- The consolidated Enterprise Risk Register, detailing key strategic, operational, financial, commercial and asset continuity, legal and compliance and people and culture risk factors;
- The Risk and Compliance Committee; and
- An internally managed Quality Management System including a detailed set of policies and procedures for Company activities.

The Chair of the Risk and Compliance Committee liaises with the Chair of the Audit Committee on those matters where both Committees have common responsibilities which include risk management, compliance and internal control. The Chair of the Audit Committee has a standing invitation to attend each Risk and Compliance Committee meeting.

CEO and CFO Certification

In accordance with section 295A of the *Corporations Act*, the Managing Director/CEO and CFO have provided a written statement to the Board that:

- Their view provided on the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board.
- The Company's risk management and internal compliance and control system is operating effectively in all material respects.

The Board agrees with the views of the ASX on this matter and notes that due to its nature, internal control assurance from the Managing Director/CEO and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgment, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not, and cannot be, designed to detect all weaknesses in control procedures.

In response to this, internal control questions are required to be completed by the key management personnel of all significant business units, including finance managers, in support of these written statements.

Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Staff and Remuneration Committee links the nature and amount of the Managing Director's/CEO's and key management personnel's remuneration to the Company's financial and operational performance. In relation to the payment of bonuses, performance rights and other incentive payments, discretion is exercised by the Board having regard to the overall performance of the Company and the performance of the individual during the period.

The expected outcomes of this remuneration structure are:

- Retention and motivation of key executives;
- Attraction of quality management to the Company; and
- Performance incentives which allow executives to share in the rewards of the success of the Company.

For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by Directors and executives in the current period please refer to the Remuneration Report, which is contained within the Directors' Report.

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves. There is no scheme to provide retirement benefits to non-executive directors.

Staff and Remuneration Committee

The Board has a Staff and Remuneration Committee, comprising four non-executive Directors. The Committee comprises a majority of independent non-executive directors and is chaired by an independent director. Further information on the Committee's role, responsibilities and membership can be seen at www.aaco.com.au.

Corporate Governance Statement

Staff and Remuneration Committee (continued)

The members of the Staff and Remuneration Committee during the year were:

Mr. D. Crombie (Committee Chair, as from 7 August 2012)
Mr. T. Keene (former Committee Chair, retired 7 August 2012)
Mr. A. Paliulis
Mr. D. McGauchie
Mr. N. Burton Taylor (retired on 16 March 2012)
Mr. C. Roberts (retired on 16 March 2012)

The members of the Staff and Remuneration Committee and their qualifications are shown in this annual report on pages 1 to 3 of the Directors' Report.

For details on the number of meetings of the Staff and Remuneration Committee held during the year and the attendees at those meetings, refer to the Directors' Report.

For additional details regarding the Staff and Remuneration Committee including a copy of its charter, please refer to our website.

When considered appropriate, the Board obtains independent advice regarding non-executive Directors' remuneration and the remuneration of key management personnel.

No Director or executive uses hedging instruments to limit their exposure to risk on either shares or options in the Company. The Company's policy is that the use of such hedging instruments is prohibited.

For details of the amount of remuneration and all monetary and non-monetary components for all of the Directors and each of the key executives during the year, refer to the Remuneration Report.

There is no scheme to provide retirement benefits (other than superannuation) to non-executive Directors.

Shareholder Communication Policy

Pursuant to Principle 6, the Company's policy is to provide timely, open and accurate information to all stakeholders, including shareholders, regulators and the wider investment community. The Company has developed policies and procedures in relation to disclosure and compliance with the ASX Listing Rules disclosure requirements. The ASX liaison person is the Company Secretary/General Counsel.

A copy of the Company's Continuous Disclosure and Shareholder Communication Policy is available on the Company's website, www.aaco.com.au.

The Company is committed to:

- Ensuring that shareholders and the financial markets are provided with full and timely information about the Company's activities in a balanced and understandable way.
- Complying with continuous disclosure obligations contained in the ASX listing rules and the *Corporations Act*.
- Communicating effectively with its shareholders and making it easier for shareholders to communicate with the Company.

To promote effective communication with shareholders and encourage effective participation at general meetings, information is communicated to shareholders:

- Through release of information to the market via ASX.
- Through the distribution of the annual report and notices of annual general meeting.
- Through shareholder meetings and investor relations presentations.
- Through letters and other forms of communications directly to shareholders.
- By posting relevant information on the Company's website www.aaco.com.au.

Shareholders can elect to receive all communications electronically, as hard copy or not to receive some communication materials by contacting the share registry.

All shareholders are encouraged to attend and/or participate in the Company's Annual General Meeting. Shareholders can attend in person or by proxy. Directors and senior executives attend the meeting.

The Company's website www.aaco.com.au has a dedicated investor relations and media section for the purpose of publishing all important company information and relevant announcements made to the market.

The external auditors are required to attend the annual general meetings and are available to answer any shareholder questions about the conduct of the audit and preparation of the audit report.

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Consolidated Income Statement

For the year ended 31 December 2012

	Note	2012 \$000	2011* \$000
Revenue from continuing operations			
Cattle sales		161,608	162,678
Meat sales		140,376	135,151
Crop income		19,188	8,171
		<u>321,172</u>	<u>306,000</u>
Cattle growth		76,840	66,224
Cattle fair value adjustments		87,550	105,153
		<u>485,562</u>	<u>477,377</u>
Deemed cost of cattle sold		(161,608)	(162,678)
Cattle expenses		(37,415)	(31,182)
Feedlot cattle expenses		(29,529)	(27,796)
Cost of meat sold		(136,235)	(130,146)
Crop costs		(11,347)	(6,720)
Gross operating margin		<u>109,428</u>	<u>118,855</u>
Other revenue	7(a)	2,681	1,894
Other income	7(b)	1,920	5,974
Expenses			
Administration and other non-station operating costs		(14,939)	(13,060)
Business development		(2,121)	(1,382)
Depreciation	8(a)	(9,405)	(8,178)
Employee expenses	8(d)	(34,224)	(29,401)
Impairment of property, plant and equipment	17(a)	(8,085)	(305)
Impairment of goodwill		-	(1,267)
Lease and property related costs		(6,968)	(3,899)
Other station operating costs		(23,596)	(18,041)
Profit from continuing operations before finance costs and income tax expense		<u>14,691</u>	<u>51,190</u>
Net finance costs	8(b)	(27,132)	(31,067)
(Loss)/Profit from continuing operations before income tax		<u>(12,441)</u>	<u>20,123</u>
Income tax benefit/(expense)	9	4,032	(5,712)
(Loss)/Profit from continuing operations after related income tax benefit/(expense)		<u>(8,409)</u>	<u>14,411</u>
Profit/(Loss) from discontinued operations after related income tax	12	-	(3,886)
Net (loss)/profit after tax		<u>(8,409)</u>	<u>10,525</u>
Earnings per share for profit attributable to the ordinary equity holders of the parent		cents	cents
Basic (loss)/earnings per share	11	(2.7)	3.6
Diluted (loss)/earnings per share	11	(2.7)	3.6
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the parent			
Basic (loss)/earnings per share	11	(2.7)	4.9
Diluted (loss)/earnings per share	11	(2.7)	4.9

*Certain numbers shown here have been re-classified from the 2011 financial statements. Refer to note 3(v).

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	2012 \$000	2011 \$000
(Loss)/Profit for the period		<u>(8,409)</u>	<u>10,525</u>
Other comprehensive income			
Fair value revaluation of land and buildings	17	(32,735)	9,543
Loss on revaluation of plant and equipment		-	(986)
Income tax	9	10,081	(3,100)
Changes in the fair value of cash flow hedges		<u>(3,830)</u>	<u>(2,249)</u>
Other comprehensive (loss)/income for the period, net of tax		<u>(26,484)</u>	<u>3,208</u>
Total comprehensive (loss)/income for the period, net of tax		<u>(34,893)</u>	<u>13,733</u>

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 31 December 2012

	Note	2012 \$000	2011 \$000
Current Assets			
Cash and cash equivalents	13	22,362	23,369
Trade and other receivables	14	17,372	20,712
Inventories and consumables	15	25,645	25,146
Biological assets – livestock	16	166,338	168,354
Derivative financial instruments	21	720	30
Other assets		1,944	723
Total Current Assets		234,381	238,334
Non-Current Assets			
Receivables		-	9
Biological assets – livestock	16	330,156	315,329
Property, plant and equipment	17	602,933	608,468
Total Non-Current Assets		933,089	923,806
Total Assets		1,167,470	1,162,140
Current Liabilities			
Trade and other payables	18	32,795	25,791
Provisions	19	2,882	2,310
Interest bearing loans and borrowings	22	2,919	56,421
Derivative financial instruments	21	6,640	4,471
Current tax liabilities	9	101	192
Total Current Liabilities		45,337	89,185
Non-Current Liabilities			
Provisions	20	512	444
Interest bearing loans and borrowings	22	407,627	311,148
Deferred tax liabilities	9	75,355	89,376
Total Non-Current Liabilities		483,494	400,968
Total Liabilities		528,831	490,153
Net Assets		638,639	671,987
Equity			
Contributed equity	23	239,473	238,296
Reserves	24	324,883	350,999
Retained earnings	24	74,283	82,692
Total Equity		638,639	671,987

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Contributed Equity (note 23) \$000	Reserves (note 24) \$000	Retained Earnings (note 24) \$000	Total Equity \$000
At 1 January 2011	172,785	347,682	72,167	592,634
Profit for the period	-	-	10,525	10,525
Other comprehensive income	-	3,208	-	3,208
Total comprehensive income for the period	-	3,208	10,525	13,733
Transactions with owners in their capacity as owners:				
Issue of share capital	67,696	-	-	67,696
Transaction costs on share issue	(3,109)	-	-	(3,109)
Exercise of options	924	-	-	924
Cost of share-based payment	-	109	-	109
At 31 December 2011	238,296	350,999	82,692	671,987
Loss for the period	-	-	(8,409)	(8,409)
Other comprehensive loss	-	(26,484)	-	(26,484)
Total comprehensive loss for the period	-	(26,484)	(8,409)	(34,893)
Transactions with owners in their capacity as owners:				
Issue of share capital	1,308	-	-	1,308
Correction to prior period share costs	(131)	-	-	(131)
Cost of share-based payment	-	368	-	368
At 31 December 2012	239,473	324,883	74,283	638,639

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 \$000	2011 \$000
Cash flows from operating activities			
Receipts from customers		294,856	360,450
Payments to suppliers, employees and others		(276,942)	(402,110)
Interest received		412	625
Net GST received from ATO		12,098	11,209
Net operating cash flows before interest and finance costs		30,424	(29,826)
Payment of interest and finance costs		(31,195)	(34,229)
Net cash flows used in operating activities	13(i)	(771)	(64,055)
Cash flows from investing activities			
Payments for property, plant and equipment and other assets		(41,114)	(17,907)
Proceeds from sale of property, plant and equipment		1,222	22,507
Payments for Tipperary assets		-	(5,000)
Net cash flows used in investing activities		(39,892)	(400)
Cash flows from financing activities			
Proceeds from issue of shares net of transaction costs		1,177	65,511
Proceeds from borrowings		40,000	54,283
Repayment of borrowings		(1,521)	(49,015)
Net cash flows from financing activities		39,656	70,779
Net (decrease)/increase in cash and cash equivalents		(1,007)	6,324
Cash and cash equivalents at the beginning of the period		23,369	17,045
Cash and cash equivalents at the end of the period	13	22,362	23,369

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes to the cash flow statement and the notes the financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

1. CORPORATE INFORMATION

Australian Agricultural Company Limited is a company limited by shares, incorporated and domiciled in Australia. The company's shares are publicly traded on the Australian Securities Exchange (ASX).

The consolidated financial statements of Australian Agricultural Company Limited (the Company or parent Company) for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Directors on 31 January 2013.

We recommend that the financial statements be considered together with any public announcements made by the Company during the year ended 31 December 2012 in accordance with the Company's continuous disclosure obligations arising under the *Corporations Act 2001* and ASX listing rules.

The nature of the operations and principal activities of Australian Agricultural Company Limited are described in the Directors' Report.

2. BASIS OF PREPARATION

The financial statements are general purpose financial statements, prepared by a for-profit entity, in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

(a) Terminology used in the financial statements

In these financial statements, any references to we, us, our, AACo, the Group and consolidated, all refer to Australian Agricultural Company Limited and the entities it controlled at the financial year end or from time to time during the financial year.

Any references to subsidiaries or controlled entities in these financial statements refer to those entities that are controlled and consolidated by Australian Agricultural Company Limited.

The Group has a 31 December financial year end. Any references to year or financial year in the financial statements, means the year ended 31 December. Where we refer to the reporting date, this means the date 31 December.

(b) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for land and buildings, livestock, crops and derivative financial instruments, which have been measured at fair value. Under the historical cost basis, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances, at the amounts of cash and cash equivalents expected to be paid to satisfy the liability in the normal course of business.

(c) Compliance with IFRS

The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(d) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

(e) Rounding

The financial statements are presented in Australian dollars and all dollar amounts in the financial statements (except where indicated) have been rounded to the nearest thousand dollars (\$'000) for presentation. This has been done in accordance with Australian Securities and Investments Commission (ASIC) Class Order 98/100, dated 10 July 1998, issued under section 341(1) of the *Corporations Act 2001*. AACo is an entity to which this class order applies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies we have adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) New accounting standards and interpretations

(i) Changes in accounting policy and disclosures

We have adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 January 2012. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Group.

- AASB 1054 Australian Additional Disclosures
- AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]
- AASB 2011-5 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation [AASB 127, AASB 128 & AASB 131]
- AASB 1048 Interpretation of Standards
- AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]

(ii) Accounting Standards and Interpretations issued but not yet effective

There are a number of Standards and Interpretations that will be mandatory in future reporting periods. We have not elected to early adopt these Standards and Interpretations. We are yet to quantify the effect on the reported financial position or performance of the Group.

The Standards and Interpretations that are of most relevance to the Group are set out below:

- AASB 2011-9 Amendments to Australian Accounting Standards – *Presentation of Other Comprehensive Income* [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]
- AASB 10 Consolidated Financial Statements
- AASB 11 Joint Arrangements
- AASB 12 Disclosure of Interests in Other Entities
- AASB 13 Fair Value Measurement
- AASB 2012-5 Annual Improvements 2009–2011 cycle
- AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities
- AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities
- AASB 9 Financial Instruments

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Australian Agricultural Company Limited, and its subsidiaries (as outlined in note 26) as at 31 December each year. All intra-group balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are all those entities over which we have the power to govern their financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than one-half of their voting rights. We currently hold 100% of the voting rights of all our subsidiaries.

We consolidate subsidiaries from the date on which control commences and up until the date on which there is a loss of control.

We account for the acquisition of our subsidiaries using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values. Any excess of the fair value of consideration over our interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Foreign currency translation

(i) Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency of Australian Agricultural Company Limited and all its subsidiaries.

(ii) Transactions and balances

Transactions in foreign currencies are converted into Australian dollars by applying the exchange rates applicable at the date of the transactions.

Amounts payable and receivable in foreign currencies are converted into Australian dollars at the exchange rate ruling at the reporting date. All differences arising on settlement or translation of amounts payable and receivable in foreign currencies are taken to the income statement.

(d) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the statement of financial position.

(e) Trade and other receivables

Trade and other receivables are considered financial assets. They are recognised initially at the fair value of the amounts to be received and are subsequently measured at amortised cost using the effective interest method, less an allowance for doubtful debts. These financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and we have transferred substantially all the risks and rewards of ownership.

We review the collectability of trade receivables on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is recognised to reduce the carrying amount of trade receivables when there is objective evidence that we will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts significantly overdue are considered indicators that the trade receivable may not be recoverable. The amount of the allowance for doubtful debts is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The allowance for doubtful debts is recognised in the income statement within administration costs. When a trade receivable for which an allowance for doubtful debts had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against administration costs.

(f) Inventories and consumables

Inventories and consumables held for use in our operations are valued at the lower of cost and net realisable value. Cost is determined on the average cost basis and comprises the cost of purchase including transport cost.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Biological assets

Our biological assets comprise cattle, other livestock, crops not yet harvested, and harvested crops. Biological assets are measured at fair value less costs to sell, with any change recognised in the income statement. Costs to sell include all costs that would be necessary to sell the assets, including freight and direct selling costs.

The fair value of a biological asset is based on its present location and condition. If an active market exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. Where we have access to different active markets then we use the most relevant one. The relevant one is defined as the market "expected" to be used at the time the fair value is established.

If an active market does not exist then we use one of the following, when available, in determining fair value:

- the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period; or
- market prices for similar assets with adjustments to reflect differences; or
- sector benchmarks.

In the event that market determined prices or values are not available for a biological asset in its present condition we may use the present value of the expected net cashflows from the asset discounted at a current market determined rate in determining fair value.

(i) Livestock

Broadly, for the most significant types of cattle we determine net market values as follows:

	Valuation method
Commercial breeding herd (comprising principally females and breeding bulls)	The value of these cattle is determined by independent valuation and with reference to prices received for representative sales of breeding cattle similar to the Group's herd. Prices for these cattle generally reflect a longer term view of the cattle market and, as such, are less volatile than movements in the spot cattle prices evident with trading cattle. Independent valuations were undertaken by Landmark and Cameron Livestock Pty Ltd.
Trading cattle (including feedlot cattle)	Relevant market indicators used only as general reference include Roma store cattle prices, abattoir market prices, and cattle prices received/quoted for the Group's cattle at the reporting date. Prices for these cattle generally reflect the shorter term spot prices available in the market place and vary based on the weight and condition of the animal. AACo live export cattle (Victoria River Group & Darwin) are valued based on market quotes available at each reporting date. Short fed cattle in feedlots are valued based on market quotes. Wagyu trading cattle are valued on the basis of independent valuation by Cameron Livestock Pty Ltd.
Bull breeding herd	Independent valuation by Landmark.

(ii) Crops

Crops in ground at the reporting date are measured at their fair value less costs to sell with reference to the relevant market spot price. Immediately prior to harvest the fair value is determined on an estimated yield per hectare basis at the commodity's quoted spot price in the market place. At reporting date if the crop is immature (i.e. it is too early to reliably predict yield), then fair value approximates to the costs incurred on the crop to the reporting date. The value is only brought to account when it can be reliably measured and it's probable that the future economic benefits will be received by us.

(h) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

We use derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge our foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

The fair value of commodity purchase contracts that meet the definition of a derivative are recognised in the income statement in cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- (a) Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.
- (b) Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.
- (c) Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, we formally designate and document the hedge relationship to which we wish to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how we will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as described below:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the income statement in finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the income statement in finance costs.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through the income statement over the remaining term of the hedge using the Effective Interest Rate (EIR) method. EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedge item is derecognised, the unamortised fair value is recognised immediately in the income statement. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement in other operating expenses.

We use forward currency contracts as hedges of our exposure to foreign currency risk in forecasted transactions and firm commitments, as well as forward commodity contracts for its exposure to volatility in the commodity prices. The ineffective portion relating to foreign currency contracts is recognised in finance costs and the ineffective portion relating to commodity contracts is recognised in other operating income. Refer to Note 21 for more details.

Amounts recognised as other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

We utilise interest rate swaps to hedge our exposure to cash flow movements in loan movements. See note 21 for more details.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Property, plant and equipment

(i) Recognition and measurement

Following initial recognition at cost, land and buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the statement of financial position, unless it reverses a revaluation decrement of the same asset previously recognised in the statement of comprehensive income. Any revaluation decrement is recognised in the income statement unless it directly offsets a previous increment of the same asset in the asset revaluation reserve. In addition, any accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal of land and buildings, any revaluation reserve relating to the particular asset being sold is transferred to the capital profits reserve.

For the 2011 and prior financial years, land and buildings were valued by external independent valuers on a rotational, but at least triennial basis, to ensure that the carrying amount did not differ materially from the respective asset's fair value at each reporting date. Commencing with the 2012 financial year, the Directors have decided that all land and buildings will be valued on an annual basis by independent valuers.

All initial lump sum payments in respect of pastoral and perpetual property leases have been classified as land. The remaining lease payments are nominal and are therefore expensed to the income statement as incurred.

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. Directly attributable costs for the acquisition and construction of an asset are capitalised if the relevant recognition criteria are met. All other repairs and maintenance are recognised in the income statement as incurred.

We review and adjust, if appropriate, the residual values, useful lives and amortisation methods of all property, plant and equipment at the end of each financial year.

(ii) Depreciation

Depreciation is calculated on a straight line basis over the estimated useful life of the asset as follows:

Property, plant and equipment	Average useful life
Land (freehold, pastoral & perpetual property leases)	Not depreciated
Buildings	40 years
Fixed improvements	30 years
Owned plant and equipment	3-10 years
Plant and equipment under lease	2-5 years
Motorised equipment	5 years

(iii) Impairment

We review the carrying values of plant and equipment for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any indication of impairment exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

(iv) Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the period the item is derecognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Leases & Agistment

AACo as a lessee

We determine whether an arrangement is or contains a lease based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

(i) Pastoral and perpetual property leases

Pastoral and perpetual property leases have been included in Property, Plant and Equipment (Refer note 17).

(ii) Agistment agreements

Agistment agreements give us the right to use land under a licence agreement to feed and pasture livestock for a fee. Agistment agreements are usually up to 12 months duration that may be renewed for further periods. Agistment rights are not capitalised by us and the costs are expensed as incurred.

(iii) Other leases

Finance leases, which transfer to us substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that we will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(k) Impairment

(i) Non-financial assets

Our tangible and intangible assets (excluding inventories, biological assets, current and deferred tax assets, and financial assets) are measured using the cost basis and are written down to their recoverable amount where their carrying value exceeds recoverable amount.

Assets with an indefinite useful life are not subject to amortisation and are tested on an annual basis for impairment, or earlier where an indication of impairment exists. Assets that are subject to amortisation are reviewed for impairment wherever events or changes in circumstances indicate that the carrying amount may not be recoverable.

At each reporting date, we assess whether there is any indication that an asset may be impaired. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

In determining value in use, we apply management judgement in establishing forecasts of future operating performance, as well as the selection of growth rates, terminal rates and discount rates. These judgements are applied based on our understanding of historical information and expectations of future performance. The expected net cash flows included in determining recoverable amounts of our assets are discounted to present values using a market determined, risk adjusted, discount rate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment (continued)

(ii) *Financial assets*

At each reporting date we assess whether there is objective evidence to suggest that any of our financial assets are impaired. For financial assets held at cost or amortised cost (trade and other receivables), we consider the financial asset to be impaired when there is objective evidence as a result of one or more events that the present value of estimated discounted future cash flows is lower than the carrying value. Any impairment losses are recognised immediately in the income statement.

(l) *Intangible assets*

Intangible assets are assets that have value, but do not have physical substance. In order to be recognised, an intangible asset must be either separable or arise from contractual or other legal rights.

(i) *Goodwill*

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred over the fair value of the net identifiable assets we have acquired and the liabilities we have assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses and is tested for impairment in accordance with note (k) on an annual basis, or when an indication of impairment exists.

(ii) *Acquired intangible assets*

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired (see note (k) for methodology). The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. These intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

(m) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to us prior to the end of the financial year that are unpaid and arise when we become obliged to make future payments in respect of the purchase of these goods and services. Trade payables are unsecured and are usually paid within 30 days of recognition. Other payables are unsecured and are usually paid within 90 days of recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Borrowings

Borrowings are included as non-current liabilities except for those with maturities less than 12 months from the reporting date, which are classified as current liabilities.

We recognise borrowings initially on the trade date, which is the date we become a party to the contractual provisions of the instrument. We derecognise borrowings when our contractual obligations are discharged or cancelled or expire.

All borrowings are initially recognised at fair value plus any transaction costs that are directly attributable to the issue of the instruments and are subsequently measured at amortised cost. Any difference between the final amount paid to discharge the borrowing and the initial borrowing proceeds (including transaction costs) is recognised in the income statement over the borrowing period using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that we incur in connection with the borrowing of funds.

(o) Provisions

We recognise provisions when:

- we have a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

When we expect some or all of a provision to be reimbursed the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

We accrue liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date in respect of employees' services up to the reporting date. We measure the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

We accrue and measure the liability for long service leave as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. We give consideration to the expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(p) Share-based payment transactions

Equity settled transactions

We provide benefits to our employees (including key management personnel) in the form of share based payments, whereby employees render services in exchange for shares or rights over shares (equity settled transactions). We recognise an expense for all share based remuneration determined with reference to the fair value at the grant date of the equity instruments. We calculate the fair value using the Black Scholes model or other applicable models. The fair value is charged to the income statement over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Australian Agricultural Company Limited (market conditions).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Share based remuneration associated with our employee share plans are recognised as additional share capital.

(r) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

(i) *Livestock and crops*

Revenue from the sale of livestock and crops is recognised when:

- there has been a transfer of risks and rewards to the customer (through the execution of a sales agreement at the time of delivery of the goods to the customer);
- no further work or processing is required;
- the quantity and quality of the goods has been determined; and
- the price is fixed and generally title has passed (for shipped goods this is the bill of lading date).

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale.

We recognise revenue on cropping operations at the market value of the harvest.

Livestock growth and fair value adjustments

At the end of each quarter and at the end of each reporting date, we measure livestock at net market value (refer note (g)). The net market value is determined through price movements, natural increase and the weight of the herd.

We recognise the net increments or decrements in the market value of livestock as either revenue or expense in the income statement, determined as:

- The difference between the total net market value of livestock recognised at the beginning of the financial year and the total net market value of livestock recognised as at the reporting date; less
- Costs expected to be incurred in realising the market value (including freight and selling costs).

Crops in the ground at the reporting date

Crops in the ground at the reporting date are measured at their fair value less costs to sell or at cost if the value is not reliably measurable. Immediately prior to harvest the fair value is determined on an estimated yield per hectare basis at the commodity's quoted spot price in the market place. At the reporting date if the crop is immature (i.e. it is too early to reliably predict yield), then fair value equates to the costs incurred on the crop to the reporting date.

(ii) *Interest revenue*

We record interest revenue on an accruals basis. For financial assets, interest revenue is determined by the effective yield on the instrument.

(s) Non-current assets held for sale and discontinued operations

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. We should be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the income statement, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when we retain a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the income statement.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Income tax and other taxes

Our income tax expense represents the sum of current tax and deferred tax.

(i) Income tax

Current tax

Current tax is calculated on accounting profit after allowing for non-taxable and non-deductible items based on the amount expected to be paid to taxation authorities on taxable profit for the period. Our current tax is calculated using tax rates that have been enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred tax

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- When the taxable temporary difference is associated with investments in subsidiaries and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation

Australian Agricultural Company Limited and its wholly-owned Australian controlled entities have formed a tax consolidated group. Income tax is recognised on a group allocation basis under which current and deferred tax amounts for the tax consolidated group are allocated among each entity in the tax consolidated group. The head entity, Australian Agricultural Company Limited, is liable for the current income tax liabilities of the tax consolidated group. In addition to its own current and deferred tax amounts, Australian Agricultural Company Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group. Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in note 9. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Income tax and other taxes (continued)

(ii) Other taxes

We record revenue, expenses and assets net of the amount of Goods and Services Tax (GST) except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(u) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated as net profit attributable to ordinary shareholders, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares outstanding during the period.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after tax effect of interest and other financing costs associated with dilutive potential ordinary shares that have been recognised as expenses, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(v) Reclassification of the Income Statement

Australian Accounting Standard AASB 101 'Presentation of Financial Statements' allows an entity to change the presentation or classification of items in its financial statements, if the change in presentation provides information that is reliable and more relevant to the users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. For the year ended 31 December 2011 the Company changed the presentation of its Income Statement to a format that is more reliable and relevant to its users. These changes included, amongst others, disclosing cattle fair value adjustments and deemed cost of cattle sold separately on the face of the income statement. Additional reclassifications have been subsequently identified for the year ended 31 December 2012 and the comparatives have been reclassified to reflect these changes in presentation. The effect of these additional re-classifications on the 31 December 2011 income statement is as follows:

	2011 Reported \$000	Reclassification \$000	2011 Restated \$000
Revenue from continuing operations			
Cattle sales	230,488	(67,810)	162,678
Meat sales	135,151	-	135,151
Crop income	12,000	(3,829)	8,171
	377,639	(71,639)	306,000
Cattle growth	66,224	-	66,224
Cattle fair value adjustments	105,153	-	105,153
	549,016	(71,639)	477,377
Deemed cost of cattle sold	(230,488)	67,810	(162,678)
Cattle expenses	(35,011)	3,829	(31,182)
Feedlot cattle expenses	(27,796)	-	(27,796)
Cost of meat sold	(130,146)	-	(130,146)
Crop costs	(6,720)	-	(6,720)
Gross operating margin	118,855	-	118,855

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Our principal financial instruments comprise receivables, payables, bank loans and overdrafts, finance leases, cash and short-term deposits and derivatives.

Risk exposures and responses

We manage our exposure to key financial risks, including interest rate, commodity and foreign currency risk in accordance with our financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets while protecting future financial security. From time to time we enter into commodity and forward currency contract positions where it is perceived that market conditions are such that it is considered prudent to enter into these transactions. Limited delegations will be reviewed by the Risk and Compliance Committee and approved by the Board. These delegations are subject to tight profit/loss limits and reviews that are provided on a daily basis to senior management. We also apply Value at Risk limits and stress tests on a daily basis to limit the risk that positions would move over the stress ranges beyond the limits approved by the Board.

We enter into various derivative transactions that include interest rate swaps, commodity hedges and forward currency contracts. The purpose of these transactions is to manage the potential volatility of outcomes arising from our operations and our sources of finance. Derivatives relating to forward currency contracts and interest rate swaps provide economic hedges and may qualify for hedge accounting and are based on limits set by the Board. The main risks arising from our financial instruments are interest rate risk, commodity price risk, foreign currency risk, credit risk and liquidity risk.

We use different methods to measure and manage the different types of risks to which we are exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate, foreign exchange and commodity prices. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of rolling cash flow forecasts.

We have a policy whereby we will forward sell a significant proportion of our feedlot cattle sales for a period of up to six months.

The majority of our revenue is received in Australian dollars, although the prices received are influenced by movements in exchange rates, particularly that of the US dollar, Japanese yen, and Euro relative to the Australian dollar.

The Board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks during the year rested with the Risk and Compliance Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for hedging cover of commodity price risk, foreign currency and interest rate risk, credit allowances, and future cash flow forecast projections.

(i) Interest rate risk

At the reporting date, we had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	2012 \$000	2011 \$000
Financial Assets		
Cash assets	22,362	23,369
	<u>22,362</u>	<u>23,369</u>
Financial Liabilities		
Club loan facility:		
\$85,000,000/\$60,000,000 bank loan	-	(55,000)
\$35,000,000 bank loan	-	(25,000)
Syndicate loan facility:		
\$400,000,000 bank loan	(200,000)	-
Interest rate swaps	(6,079)	(4,469)
	<u>(206,079)</u>	<u>(84,469)</u>
Net exposure	<u>(183,717)</u>	<u>(61,100)</u>

Interest rate swap contracts outlined in note 21, with a fair value of \$6,079,000 (2011: \$4,469,000) are exposed to fair value movements if interest rates change. Our policy is to manage our finance costs using a mix of fixed and variable rate debt. In accordance with our bank covenant obligations we maintain at least 50% of our borrowings at fixed rates which are carried at amortised cost and it is acknowledged that fair value exposure is a by-product of our attempt to manage our cash flow volatility arising from interest rate changes. To manage this mix in a cost-efficient manner, we enter into interest rate swaps, in which we agree to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2012, after taking into account the effect of interest rate swaps, approximately 50% (2011: 78%) of our borrowings are at a fixed rate of interest. We regularly analyse our interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

(i) Interest rate risk (continued)

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date:

Judgements of reasonably possible movements:	Effect on profit before tax	Effect on equity
2012	\$000	\$000
+1% (100 basis points)	(1,783)	(4,000)
-1% (100 basis points)	1,783	4,000
2011		
+1% (100 basis points)	705	6,000
-1% (100 basis points)	(705)	(6,000)

The movements in profit are due to the movement in fair value of interest rate swaps, variable rate debt and cash balances, based on movements in interest rates only.

Significant assumptions used in the interest rate sensitivity analysis include:

- Reasonably possible movements in interest rates were determined based on the Group's current credit rating and mix of debt in Australia, relationships with finance institutions, the level of debt that is expected to be renewed as well as a review of the last two year's historical movements and economic forecaster's expectations.
- A price sensitivity of derivatives based on a reasonably possible movement of interest rates at balance dates by applying the change as a parallel shift in the forward curve.
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.

In compliance with bank covenants we have hedged our interest rate exposure arising out of the bank facility agreement. In the 2011 year we entered into 3 year interest rate swaps of \$200 million. This resulted in a \$3,829,096 movement in other comprehensive income in 2012 (2011: \$2,249,484).

(ii) Commodity price risk

We have transactional commodity price risk primarily in the sale of cattle and beef (refer note 21). Other exposures include cropping (principally cotton), feed inputs for its feedlot operations, and diesel. Purchases of commodities may be for a period of up to 12 months and partial hedging of these inputs may be for periods of up to 24 months.

At 31 December we had the following commodity price exposures on forward sales and purchase contracts that are not designated as cash flow hedges:

Judgements of reasonably possible movements:	Effect on profit before tax	Effect on equity
2012	\$000	\$000
Commodity Price +10%	366	-
Commodity Price -10%	(351)	-
Judgements of reasonably possible movements:		
2011	Effect on profit before tax	Effect on equity
	\$000	\$000
Commodity Price +10%	127	-
Commodity Price -10%	(127)	-

(iii) Foreign currency risk

We also have transactional currency exposures (refer note 21). Such exposure arises from sales by the wholesale beef segment in currencies other than in Australian dollars. We undertake forward sales in foreign currencies. All forward sales are covered with foreign exchange contracts to coincide with the expected receipt of foreign funds spread over the year.

Forward currency contracts must be in the same currency as the sold item. It is our policy not to enter into forward contracts or foreign exchange options until a firm commitment is in place.

At 31 December 2012 substantially all foreign currency receivables were covered by forward currency contracts or foreign exchange options. The following sensitivity is based on the foreign currency risk exposures in existence at the reporting date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

(iii) Foreign currency risk (continued)

At 31 December 2012, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:	Effect on profit before tax \$000	Effect on equity \$000
2012		
AUD/USD +10%	2,926	-
AUD/USD -10%	(3,577)	-
2011		
AUD/USD +10%	1,141	-
AUD/USD -10%	(1,394)	-
AUD/JPY +10%	4	-
AUD/JPY -10%	(5)	-
AUD/EUR +10%	17	-
AUD/EUR -10%	(21)	-

The movements in profit are due to the movement in foreign exchange rates resulting in the movement in fair value of foreign exchange contracts and trade receivables. We believe the reporting date risk exposures are representative of the risk exposure inherent in the financial instruments.

Significant assumptions used in the foreign currency exposure sensitivity analysis include:

- Reasonably possible movements in foreign exchange rates were determined based on a review of the last two years historical movements and economic forecaster's expectations.
- The reasonably possible movement was calculated by taking the foreign currency spot rate as at balance date, moving this spot rate by the reasonably possible movements and then re-converting the foreign currency into AUD with the "new spot rate". This methodology reflects the translation methodology undertaken by the Group.
- A price sensitivity of derivatives has been based on a reasonably possible movement of spot rates at reporting dates not on forward rates.
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.
- The sensitivity does not include financial instruments that are non-monetary items as these are not considered to give rise to currency risk.

(iv) Price risk

Our exposure to derivative commodity price risk is minimal. We do not currently apply hedge accounting to our beef and cotton commodity price exposures as the derivatives do not meet the accounting standard requirements for hedge accounting. However, we have a policy whereby we will forward sell a significant proportion of our feedlot cattle sales for a period of up to 6 months and a significant portion of our cotton production. These contracts are entered into and continue to be held for the purpose of delivery of feedlot cattle and cotton arising from our expected sale requirements; and are classified as non-derivative, and are not required to be fair valued.

We enter into forward purchase contracts for grain commodities. This practice mitigates the price risk for the Group. As at 31 December 2012 we had forward purchased approximately 80% (2011: 35%) of our expected grain usage for the coming 12 months. These contracts are entered into and continue to be held for the purpose of grain purchase requirements; and are classified as non-derivative, and are not required to be fair valued.

(v) Credit Risk

Credit risk arises from our financial assets, which comprise cash and cash equivalents, trade and other receivables and derivative instruments. Our exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets (as outlined in each applicable note). We do not hold any credit derivatives to offset our credit exposure.

With respect to receivables, the majority of our credit risk is in Australia and is generally concentrated in the meat processing industry. We manage our credit risk by maintaining strong relationships with a limited number of quality customers. The risk is mitigated by paying an annual premium to a third party to accept credit risk in relation to certain sales overseas. In addition, receivable balances are monitored on an ongoing basis with the result that our experience of bad debts has not been significant. We have no significant concentrations of credit risk.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

(vi) Liquidity risk

Liquidity risk arises from our financial liabilities and our subsequent ability to repay the financial liabilities as and when they fall due.

Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and finance leases.

We manage our liquidity risk by monitoring the total cash inflows and outflows expected on a monthly basis. We have established comprehensive risk reporting covering our business units that reflect expectations of management of the expected settlement of financial assets and liabilities.

The following liquidity risk disclosures reflect all contractually fixed repayments and interest resulting from recognised financial liabilities and derivatives as of 31 December 2012. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract.

However, where the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which we can be required to pay. When we are committed to make amounts available in instalments, each instalment is allocated to the earliest period in which we are required to pay.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows of financial instruments. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant and equipment and investments in working capital (e.g., inventories and trade receivables). These assets are considered in the Group's overall liquidity risk.

Liquid non-derivative assets comprising cash and receivables are considered in the Group's overall liquidity risk. We ensure that sufficient liquid assets are available to meet all the required short-term cash payments.

We monitor rolling forecasts of liquidity reserves on the basis of expected cash flow.

	Less than or equal to 6 months \$000	6-12 Months \$000	1-2 years \$000	2-5 years \$000	Total \$000
Year ended 31 December 2012					
Liquid financial assets					
Cash and cash equivalents	22,362	-	-	-	22,362
Trade and other receivables	17,372	-	-	-	17,372
	<u>39,734</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,734</u>
Financial liabilities					
Trade and other payables	(32,795)	-	-	-	(32,795)
Interest bearing loans and borrowings	(12,015)	(11,917)	(23,286)	(414,390)	(461,608)
Derivatives	(1,356)	(1,049)	(2,099)	(415)	(4,919)
	<u>(46,166)</u>	<u>(12,966)</u>	<u>(25,385)</u>	<u>(414,805)</u>	<u>(499,322)</u>
Net maturity	(6,432)	(12,966)	(25,385)	(414,805)	(459,588)
Year ended 31 December 2011					
Liquid financial assets					
Cash and cash equivalents	23,369	-	-	-	23,369
Trade and other receivables	20,712	-	-	-	20,712
	<u>44,081</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,081</u>
Financial liabilities					
Trade and other payables	(25,791)	-	-	-	(25,791)
Interest bearing loans and borrowings	(11,953)	(74,773)	(311,015)	(4,618)	(402,359)
Derivatives	(716)	(682)	434	445	(519)
	<u>(38,460)</u>	<u>(75,455)</u>	<u>(310,581)</u>	<u>(4,173)</u>	<u>(428,669)</u>
Net maturity	5,621	(75,455)	(310,581)	(4,173)	(384,588)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

(vii) Fair Values

We use various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – The fair value is calculated using quoted prices in active markets.

Level 2 – The fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – The fair value is estimated using inputs for the asset or liability that are not based on observable market data.

As at 31 December 2012 and 2011, the only financial instruments recognised at fair value were interest rate swaps and forward currency contracts. These are valued using a level 2 method.

The fair value of the financial instruments summarised in the table below have been estimated by applying the level 2 method described above.

	2012 \$000	2011 \$000
Financial assets		
Derivative instruments		
Commodity contracts	720	30
	<u>720</u>	<u>30</u>
Financial liabilities		
Derivative instruments		
Foreign exchange contracts	562	2
Interest rate swaps	6,079	4,469
	<u>6,641</u>	<u>4,471</u>

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires us to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. We continually evaluate our judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. We base our judgements and estimates on historical experience and on other various factors we believe are reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

With respect to the Australian Federal Government's Carbon Pollution Reduction Scheme, agriculture has been initially exempted, however we will continue to monitor and assess this scheme for risks and opportunities.

We have identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

We have identified the following accounting policies for which significant judgements, estimates and assumptions have been made:

- Classification of perpetual and pastoral leases refer note 3 (j);
- Fair value determination of land refer note 3 (i);
- Fair value determination of livestock and crops refer note 3 (g);
- Fair value determination of derivative financial instruments refer note 3 (h); and
- Impairment of non-financial and financial assets refer note 3 (k).

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

6. OPERATING SEGMENTS

Identification of reportable segments

We have identified our operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer (the chief operating decision maker) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the nature of the product produced and the reporting structure within the Group. Discrete financial information for each of the operating segments is reported to the Chief Executive Officer on at least a monthly basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

6. OPERATING SEGMENTS (continued)

Types of products

(i) Finished & Store Cattle

The Finished & Store Cattle group operates an integrated cattle production system across 18 owned cattle stations, 5 agisted properties, 2 owned feedlots, 5 external feedlots, and 2 owned and 2 external farms located throughout Queensland and the Northern Territory. The Finished & Store Cattle group produces beef cattle that are either exported or sold for meat. As the only significant product produced for external sale is beef cattle, the operation of the Finished & Store Cattle group is considered to be one reportable segment.

(ii) Farming

Selected properties carry out farming operations including the growing and harvesting of cotton, wheat, sorghum and other crops. Farming is a developing area of the Group.

(iii) Wholesale Beef

The Wholesale Beef group markets and distributes branded beef both internationally and domestically. The Wholesale Beef group operates from our offices at Milton in Brisbane. As the only significant product sold is branded meat, we consider the operations of the Wholesale Beef group to be one reportable segment.

(iv) Meat Processing

Meat Processing operations are based in Darwin. Meat is to be processed and packaged for local consumption and for export.

Accounting policies and inter-segment transactions

The accounting policies we use in reporting segments are the same as those contained in note 3 to the financial statements and in the prior period, except as follows:

- *Inter-entity sales*
Inter-entity sales are recognised based on arm's length market prices.
- *Corporate charges*
It is our policy that items of revenue and expense that are not directly attributable to the Wholesale Beef group are allocated to the Finished & Store Cattle group. No reallocation of general corporate charges is performed between the segments, which is primarily due to the significantly greater asset base employed by the Finished & Store Cattle group.

The following table presents the revenue and profit information regarding operating segments for the years ended 31 December 2012 and 31 December 2011. Segment liabilities are not reported to the Chief Executive Officer and therefore segment liabilities are not disclosed.

	Continuing Operations					Total \$'000
	Finished & Store Cattle \$'000	Wholesale Beef \$'000	Farming \$'000	Meat Processing \$'000	Adjustments and eliminations \$'000	
31 December 2012						
Segment revenue	236,812	140,376	24,103	-	(80,119)	321,172
Segment gross margin	97,446	4,141	7,841	-	-	109,428
Segment result (EBIT)	14,966	1,097	(630)	(742)	-	14,691
Net finance costs						(27,132)
Income tax benefit						4,032
Loss from continuing operations after related income tax benefit						(8,409)
Total segment assets	1,127,413	15,841	449	23,767	-	1,167,470
Total segment assets includes: Additions to non-current assets (other than financial assets and deferred tax)	22,293	65	575	22,196	-	45,129

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

6. OPERATING SEGMENTS (continued)

Segment information (continued)

31 December 2011*	Continuing Operations					Total \$'000
	Finished & Store Cattle \$'000	Wholesale Beef \$'000	Farming \$'000	Meat Processing \$'000	Adjustments and eliminations \$'000	
Segment revenue	230,488	135,151	12,000	-	(71,639)	306,000
Segment gross margin	107,402	5,005	6,448	-	-	118,855
Segment result (EBIT)	46,518	1,874	2,798	-	-	51,190
Net finance costs						(31,067)
Income tax expense						(5,712)
Profit from continuing operations after related income tax expense						14,411
Total segment assets	1,125,966	13,634	20,690	1,571	-	1,161,861
Discontinued operation						279
						1,162,140
Total segment assets includes: Additions to non-current assets (other than financial assets and deferred tax)	24,002	-	252	1,571	-	25,825

* The 31 December 2011 amounts have been restated to provide comparable information for the new farming and meat processing segments introduced during 2012.

Reconciliation of previously reported segment revenue

For the year ended 31 December 2012 we changed the presentation of our segment note to a format that is more reflective of operations, and this affected the comparative amounts for the year ended 31 December 2011. The comparatives have been restated to reflect the changes in presentation. The effect of this re-classification on the 31 December 2011 income statement is as follows:

31 December 2011	Continuing Operations					Total \$'000
	Finished & Store Cattle \$'000	Wholesale Beef \$'000	Farming \$'000	Meat Processing \$'000	Adjustments and eliminations \$'000	
Segment revenue as previously reported	242,488	135,151	-	-	-	377,639
Reclassifications:						
Deemed cost of cattle	-	-	-	-	(71,639)	(71,639)
Farming revenue	(12,000)	-	12,000	-	-	-
Reclassified segment revenue	230,488	135,151	12,000	-	(71,639)	306,000

Segment revenue and non-current assets

Revenues from external customers	2012 \$000	2011 \$000
Australia	223,231	220,808
Korea	25,697	28,776
Japan	17,934	18,497
USA	17,677	13,698
Hong Kong	6,001	5,018
Other countries	30,633	19,203
Total revenue per income statement	321,172	306,000

The revenue information above is based on the location of the customer.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

6. OPERATING SEGMENTS (continued)

Segment information (continued)

Revenues from two single external customers amounted to \$34,828,540 (2011: \$35,881,869) and \$32,422,619 (2011: nil) respectively arising from sales by the Finished and Store Cattle segment. No other single customer contributed 10% or more to the Group's revenue for both 2012 and 2011.

All non-current assets are located in Australia.

7. OTHER REVENUE AND OTHER INCOME

	2012 \$000	2011 \$000
(a) Other revenue		
Interest revenue – unrelated parties	404	606
Other revenue	2,277	1,288
	<u>2,681</u>	<u>1,894</u>
(b) Other income		
Net gain on disposal of property, plant and equipment	583	5,943
Insurance recovery relating to fire	1,282	-
Other	55	31
	<u>1,920</u>	<u>5,974</u>

8. EXPENSES

(a) Depreciation

Depreciation of:

- Buildings and leasehold improvements	3,546	3,513
- Plant and equipment	5,859	4,665
Total depreciation	<u>9,405</u>	<u>8,178</u>

(b) Net finance costs

Bank loans and overdrafts	28,061	32,229
Other financing charges	1,290	1,274
Total finance costs	29,351	33,503
Mark to market valuation of interest rate swaps	(2,219)	(2,436)
Net finance costs	<u>27,132</u>	<u>31,067</u>

(c) Other expenses

Provision for employee benefits		
- Annual leave	1,083	1,877
- Long service leave	178	85
Total provision for employee benefits	<u>1,261</u>	<u>1,962</u>

Minimum lease payments – operating leases	<u>5,433</u>	<u>1,376</u>
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Research and development expenses charged directly to administration expense	<u>48</u>	<u>68</u>
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(d) Employee expenses

Salaries and wages	27,052	25,487
Workers' compensation expense	1,493	393
Defined contribution superannuation expense	2,387	2,059
Other employment benefits	952	38
Share-based payments expense	751	109
Payroll tax	1,589	1,315
	<u>34,224</u>	<u>29,401</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

9. INCOME TAX

	2012 \$000	2011 \$000
(a) Income tax expense		

The major components of income tax (benefit)/expense are:

Income Statement

Current income tax

Current income tax charge	(352)	239
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Deferred income tax

Relating to origination and reversal of temporary differences	(3,680)	5,473
Income tax (benefit)/expense reported in the income statement	<u>(4,032)</u>	<u>5,712</u>

(b) Amounts charged or credited directly to equity

Deferred income tax

Net (loss)/(gain) on revaluation of land and buildings	(10,341)	2,310
Income tax (benefit)/expense reported in equity	<u>(10,341)</u>	<u>2,310</u>

(c) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

	2012 \$000	2011 \$000
Accounting (loss)/profit before tax from continuing operations	(12,441)	20,123
Loss from discontinued operation	-	(5,551)
	<u>(12,441)</u>	<u>14,572</u>
At the statutory income tax rate of 30% (2011: 30%)	(3,732)	4,372
Building depreciation not deductible	254	278
Excess devaluation of properties charged to profit and loss	2,425	91
Net taxable gain on disposal of property	-	193
Tax losses recognised as deferred tax asset	(2,949)	(540)
Other items (net)	(30)	(347)
Income tax	<u>(4,032)</u>	<u>4,047</u>
Income tax (benefit)/expense reported in the consolidated income statement	(4,032)	5,712
Income tax (benefit) attributable to discontinued operations	-	(1,665)
	<u>(4,032)</u>	<u>4,047</u>

(d) Recognised deferred tax assets and liabilities

	Statement of financial position		Income statement	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Deferred income tax at 31 December relates to the following:				
<i>Deferred tax liabilities</i>				
Accelerated depreciation for tax purposes	24	105	81	78
Revaluations of land and buildings to fair value	(41,558)	(51,898)	-	(2,301)
Revaluations of trading stock for tax purposes	(40,030)	(40,369)	(338)	5,996
Offsetting deferred tax asset	6,209	2,786	-	-
	<u>(75,355)</u>	<u>(89,376)</u>		
<i>Deferred tax assets</i>				
Accruals and other	1,592	366	(1,226)	635
Tax losses carried forward	3,489	-	(3,489)	-
Capitalised expenses accelerated for book purposes	79	82	3	3
Impairment of property, plant and equipment	-	260	260	707
Interest rate swaps	(103)	746	849	677
Investments	8	8	-	-
Leave entitlements	1,018	826	(192)	(22)
Other employee costs	126	498	372	(300)
Total deferred tax asset (offset against deferred tax liability)	<u>6,209</u>	<u>2,786</u>	<u>(3,680)</u>	<u>5,473</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

9. INCOME TAX (continued)

(e) Movements in tax balances	Current	Deferred	Current	Deferred
	Income tax	Income tax	Income tax	Income tax
	2012	2012	2011	2011
	\$000	\$000	\$000	\$000
Opening balance	(192)	(89,376)	(819)	(81,593)
(Charged)/credited to the income statement	(352)	3,680	1,426	(5,473)
(Charged)/credited to equity	-	10,341	-	(2,310)
Prior year under provision	443	-	(799)	-
Closing balance	(101)	(75,355)	(192)	(89,376)

(f) Tax consolidation

Australian Agricultural Company Limited and its 100% owned subsidiaries are a tax consolidated group. Members of the tax consolidated group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries based on individual tax obligations. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the reporting date, the possibility of default is remote. The head entity of the tax consolidated group is Australian Agricultural Company Limited.

10. DIVIDENDS PAID AND PROPOSED

Dividends declared and paid during the year

No final or interim dividends were declared and paid during the year (2011: nil).

Franking credits

There are no franking credits available for the subsequent financial year (2011: nil).

11. EARNINGS PER SHARE

The following reflects the income/(loss) used in the basic and diluted earnings/(loss) per share computations:

	2012	2011
	\$000	\$000
Earnings used in calculating basic and diluted earnings per share		
Net (loss)/profit attributable to ordinary equity holders of the parent from continuing operations	(8,409)	14,411
Loss attributable to ordinary equity holders of the parent from discontinued operations	-	(3,886)
Net (loss)/profit attributable to ordinary equity holders of the parent for basic and diluted earnings	(8,409)	10,525
	Number	Number
Weighted average number of ordinary shares used as denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	312,894,038	294,139,358
Adjustments for calculation of diluted earnings per share:		
- Options and rights	439,216	235,327
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	313,333,254	294,374,685

There are no instruments (e.g., share options) excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are antidilutive for either of the periods presented.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

(a) Information concerning the classification of securities

Options

Options granted to employees (including Key Management Personnel) as described in note 28 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These options have not been included in the determination of basic earnings per share.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

11. EARNINGS PER SHARE (continued)

(b) Discontinued operations

To calculate earnings per share amounts for the discontinued operation (see Note 12), the weighted average number of ordinary shares for both basic and diluted amounts is as per the table above. The following table provides the profit/(loss) amounts used:

	2012 \$000	2011 \$000
Net loss attributable to ordinary equity holders of the parent from discontinued operations for basic and diluted earnings per share calculations.	-	(3,886)

12. DISCONTINUED OPERATIONS

During May 2011, the Board of Directors formed the view that the Chef's Partner business should be wound down. The process was substantially complete at 31 December 2011.

The Chef's Partner business was previously reported as part of the Wholesale Beef segment. The decision to close the business was in line with the revised strategic direction of the Group.

The results of the discontinued operation are presented below.

	2012 \$000	2011 \$000
Revenue and other income	-	6,224
Administration and other non-station operating costs	-	(723)
Business development	-	(80)
Cost of goods sold value-added businesses	-	(5,244)
Depreciation, amortisation and impairment	-	(2,645)
Employee expenses	-	(2,323)
Fuel expenses	-	(222)
Lease and property related costs	-	(429)
Loss from discontinued operations before finance costs and income tax expense	-	(5,442)
Net finance costs from discontinued operations	-	(109)
Loss from discontinued operations before income tax	-	(5,551)
Income tax benefit from discontinued operations	-	1,665
Loss from discontinued operations after related income tax	-	(3,886)

The net cash flows incurred by Chef's Partner are as follows:

Operating	-	(812)
Investing	-	173
Financing	-	-
Net cash outflow	-	(639)

Earnings per share:

	cents	cents
Basic loss for the year from discontinued operation	-	(1.3)
Diluted loss for the year from discontinued operation	-	(1.3)

There were no assets of Chef's Partner classified as held for sale at 31 December 2012.

The plant and equipment used by Chef's Partner has been either written off or transferred to other entities in the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

	2012 \$000	2011 \$000
13. CURRENT ASSETS — CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	12,380	8,457
Call deposits with banks	9,982	14,912
	<u>22,362</u>	<u>23,369</u>

(i) Reconciliation of net (loss)/profit after tax to net cash flows from operations

Net (loss)/profit after income tax	(8,409)	10,525
<i>Adjustments for:</i>		
Depreciation	9,405	8,657
Impairment of goodwill	-	3,183
Impairment of property, plant and equipment	8,085	555
Gain on sale of property, plant and equipment	(583)	(5,305)
(Increment)/decrement in net market value of livestock	(12,811)	(72,369)
<i>Changes in assets and liabilities:</i>		
(Increase)/decrease in inventories	(499)	(2,565)
(Increase)/decrease in trade and other receivables	2,659	(5,075)
(Increase)/decrease in prepayments and other assets	(1,221)	(653)
(Decrease)/increase in deferred tax liabilities	(3,940)	4,674
(Decrease)/increase in current tax liability	(91)	(627)
(Decrease)/increase in trade and other payables	7,282	(2,808)
(Decrease)/increase in interest rate swaps	(1,658)	(2,435)
(Decrease)/increase in provisions	1,010	188
Net cash used in operating activities	<u>(771)</u>	<u>(64,055)</u>

(ii) Non-cash financing and investing activities

Acquisition of assets by means of finance leases	6,787	6,040
Share-based payments (note 28)	<u>601</u>	<u>117</u>

(iii) Cash flows from investing activities

2012

Nil

2011

Included in proceeds from sale of property, plant and equipment is \$21,585,000 from the sale of the Meteor Downs station.

14. CURRENT ASSETS — TRADE AND OTHER RECEIVABLES

Trade receivables	16,073	15,366
Other receivables	1,299	5,346
	<u>17,372</u>	<u>20,712</u>

(a) Allowance for doubtful debts

Trade receivables are non-interest bearing and are generally on 14 day terms. An allowance for doubtful debts is recognised when there is objective evidence that an individual trade receivable may not be collectible. Based on our assessment of the recoverability of trade receivables at the reporting date, we concluded that an allowance for doubtful debts was not required at 31 December 2012 and 31 December 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

14. CURRENT ASSETS — TRADE AND OTHER RECEIVABLES (continued)

(b) Fair value and credit risk

Due to the short-term nature of trade and other receivables, their carrying value is assumed to approximate their fair value.

Our maximum exposure to credit risk is the fair value of receivables. We do not hold collateral as security, nor is it our policy to transfer (on-sell) receivables to special purpose entities. We refer you to note 4 for more information on the risk management policy of the Group and the credit quality of the Group's trade receivables.

(c) Foreign exchange and interest rate risk

Details regarding foreign exchange and interest rate risk exposure are disclosed in note 4.

15. CURRENT ASSETS — INVENTORIES AND CONSUMABLES

	2012 \$000	2011 \$000
Bulk stores - recorded at cost	6,873	5,783
Feedlot commodities - recorded at cost	8,319	10,490
Cotton crop - recorded at cost	3,544	2,129
Horses and goats - recorded at net market value	2,221	2,288
Other - recorded at cost	4,688	4,456
	<u>25,645</u>	<u>25,146</u>

16. BIOLOGICAL ASSETS — LIVESTOCK

Current

Cattle at net market value – trading cattle

(31 December 2012: 229,542 head, 31 December 2011: 223,419 head)

	166,338	168,354
Total current livestock	<u>166,338</u>	<u>168,354</u>

Non-Current

Cattle at net market value – commercial and bull breeding herd

(31 December 2012: 452,198 head, 31 December 2011: 442,172 head)

	330,156	315,329
Total non-current livestock	<u>330,156</u>	<u>315,329</u>

Total livestock	<u>496,494</u>	<u>483,683</u>
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Livestock movement

Carrying amount at 1 January	483,683	411,592
Gain from changes to fair value less estimated point of sale costs	129,804	133,419
Purchases of livestock	75,875	124,684
Sale of livestock	<u>(192,868)</u>	<u>(186,012)</u>
Carrying amount at 31 December	<u>496,494</u>	<u>483,683</u>

Unbranded calves at 31 December 2012 have been estimated at 96,323 (2011: 88,077).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

	2012 \$000	2011 \$000
17. NON-CURRENT ASSETS — PROPERTY PLANT AND EQUIPMENT		
(a) Reconciliation of carrying amounts at the beginning and end of the period		
Freehold Land		
Opening balance, at fair value	75,453	84,430
Additions	14,180	3,360
Disposals	-	(13,228)
Net revaluation increment/(decrement)	(3,547)	891
Closing balance, at fair value (b)	86,086	75,453
Pastoral Leases		
Opening balance, at fair value	429,466	421,119
Additions	-	-
Net revaluation decrement recognised in income statement	(8,085)	(305)
Net revaluation increment/(decrement) recognised in asset revaluation reserve	(29,188)	8,652
Closing balance, at fair value (b) (c)	392,193	429,466
Buildings and Improvements		
Opening balance, at fair value	108,563	100,907
Additions	13,642	11,265
Disposals	-	(3,609)
Closing balance, at fair value (b)	122,205	108,563
Accumulated Depreciation		
Opening balance	(28,020)	(25,636)
Depreciation for the year	(3,546)	(3,513)
Disposals	-	1,129
Closing balance (b)	(31,566)	(28,020)
Fair value	122,205	108,563
Accumulated depreciation and impairment	(31,566)	(28,020)
Net carrying amount	90,639	80,543
Net freehold land, pastoral leases, buildings and improvements	568,918	585,462
Plant and Equipment		
Opening balance, at cost	65,198	57,807
Additions	17,307	11,216
Disposals	(2,596)	(3,825)
Closing balance, at cost	79,909	65,198
Accumulated Depreciation		
Opening balance	(42,192)	(39,702)
Depreciation for the year	(5,859)	(5,143)
Disposals	2,157	2,653
Closing balance	(45,894)	(42,192)
Net plant and equipment	34,015	23,006
Total net carrying amount of property, plant and equipment	602,933	608,468

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

17. NON-CURRENT ASSETS — PROPERTY PLANT AND EQUIPMENT (continued)

(b) Revaluation of freehold land, pastoral leases, buildings and improvements

For the 2011 and prior financial years, land and buildings were valued by external independent valuers on a rotational, but at least triennial basis to ensure that the carrying amount did not differ materially from the respective asset's fair value at each reporting date. For the 2012 financial year, all land and buildings were valued by external independent valuers.

The fair values of freehold land, pastoral leases, buildings and improvements have been determined by reference to independent valuations performed by Herron Todd White in December 2012. Fair value was determined by reference to an open market, being the amount for which the asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the valuation date.

At 31 December 2012 the revaluation decrement for two specific stations (pastoral leases) exceeded revaluations previously credited to the asset revaluation reserve resulting in \$8,085,000 (2011: \$305,000) being expensed to the income statement. The revaluation surplus for all other properties has been credited to the asset revaluation reserve included in the equity section of the statement of financial position.

The effective date of the revaluation was 31 December 2012.

If freehold land, pastoral leases, buildings and improvements were measured using the deemed cost model (the fair value of the assets in 1995) the carrying amounts would be as follows:

	2012 \$000	2011 \$000
Deemed cost	301,984	270,692
Accumulated depreciation	(31,566)	(28,020)
Net carrying amount	270,418	242,672

(c) Pastoral leases

Our cattle stations are generally held under a leasehold agreement with the Crown. Leasehold properties in Queensland are mainly pastoral holdings which are term leases with a maximum period of 50 years. In the Northern Territory, the pastoral leases we hold have been granted on a perpetual basis by the Northern Territory Government.

While there is no obligation for leases to be renewed by the Queensland Government at expiry, we are not presently aware of any reason why leases would not be renewed on substantially the same terms based upon past practice by the Queensland Government.

18. CURRENT LIABILITIES — TRADE AND OTHER PAYABLES

	2012 \$000	2011 \$000
Trade payables	17,884	8,168
Other payables	14,911	17,623
	32,795	25,791

Trade payables are non-interest bearing and are normally settled on agreed terms which are generally up to 30 days. Other payables are non-interest bearing and have an average term of three months.

(a) Fair value

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

(b) Foreign exchange and liquidity risk

Information regarding foreign exchange and liquidity risk exposure is set out in note 4.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

19. CURRENT LIABILITIES — PROVISIONS

	2012 \$000	2011 \$000
Annual leave	1,993	1,704
Long service leave	889	606
	<u>2,882</u>	<u>2,310</u>

20. NON-CURRENT LIABILITIES — PROVISIONS

Long service leave	<u>512</u>	<u>444</u>
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21. DERIVATIVE FINANCIAL INSTRUMENTS

Current assets		
Forward currency contracts	<u>720</u>	<u>30</u>
Current liabilities		
Forward currency contracts	561	2
Interest rate swap contracts	<u>6,079</u>	<u>4,469</u>
	<u>6,640</u>	<u>4,471</u>

Forward currency contracts

We have entered into forward currency exchange traded contracts which are economic hedges but do not satisfy the requirements of the accounting standards for hedge accounting.

	Notional Amounts (AUD)		Average Exchange Rate	
	2012 \$000	2011 \$000	2012 AUD/USD	2011 AUD/USD
Sell FX/Buy AUD				
Sell USD Maturity 0-12 Months	27,458	12,527	1.01914	1.0247
Sell JPY Maturity 0-12 Months	-	45	-	79.1331
Sell EUR Maturity 0-12 Months	-	204	-	0.7145

We fair value these contracts by comparing the contracted rate to the market rates for contracts with the same length of maturity. All movements in fair value are recognised in profit or loss in the period they occur. The net fair value gain on foreign currency derivatives during the year was \$1,420,000 (2011: \$339,000).

Interest rate swap contracts

We have entered into interest rate swaps which are economic hedges. The \$80 million swaps did not satisfy the requirements of the accounting standards for hedge accounting and these swaps were closed out in the 2012 financial year. The \$200 million swaps have been designated as effective interest rate swaps and therefore satisfy the accounting standard requirements for hedge accounting.

As at 31 December, the notional principal amounts and period of expiry of the interest rate swap contracts are as follows:

	2012 \$000	2011 \$000
0-1 years	-	80,000
1-3 years	<u>200,000</u>	<u>200,000</u>

The gain or loss from remeasuring the interest rate swaps at fair value is recognised in other comprehensive income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. It is reclassified into profit or loss when the hedged interest expense is recognised. In the year ended 31 December 2012 a gain of \$2,219,000 was recognised as a swap benefit for interest rate swaps on previous facilities into profit or loss (2011 – gain of \$2,436,000) and included in finance costs.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

22. INTEREST-BEARING LOANS AND BORROWINGS

	2012 \$000	2011 \$000
Current		
Obligations under finance leases	2,919	1,421
\$85,000,000 bank loan	-	55,000
	<u>2,919</u>	<u>56,421</u>
Non-current		
Obligations under finance leases	9,280	6,148
\$270,000,000 bank loan facility	-	270,000
\$35,000,000 bank loan facility	-	35,000
\$450,000,000 bank loan facility	398,347	-
	<u>407,627</u>	<u>311,148</u>

\$85,000,000 bank loan club facility - secured

We repaid the loan on 15 March 2012. The effective interest rate was 7.10% (2011: 8.53%).

\$270,000,000 bank loan club facility - secured

We repaid the loan on 15 March 2012. The effective interest rate was 7.10% (2011: 8.53%).

\$35,000,000 bank loan club facility - secured

We repaid the loan on 15 March 2012. The effective interest rate was 7.10% (2011: 8.53%).

\$450,000,000 bank loan facility - secured

During 2012 we established a banking syndicated facility to replace the club facility. The loans are repayable on 9 March 2015. It is intended that the loans will be renewed at maturity date. The facility comprises two facilities:

Facility A - \$400,000,000	This facility is currently drawn down by \$400,000,000 and is offset in the statement of financial position by a prepaid facility participation fee of \$1,653,000.
Facility B - \$50,000,000	Undrawn.

(a) Fair values

The carrying amount of our current and non-current borrowings approximates their fair value.

(b) Interest rate, foreign exchange and liquidity risk

Details regarding interest rate, foreign exchange and liquidity risk is disclosed in note 4.

(c) Assets pledged as security

Financing facilities are provided on a secured basis, with security given over all fixed and floating assets.

(d) Defaults and breaches

During the current and prior years, there were no defaults or breaches on any of the loans.

(e) Financing arrangements

We have access to the following financing facilities:

	Accessible \$000	Drawn-down \$000	Unused \$000
2012			
\$450,000,000 bank loan	450,000	400,000	50,000
Guarantee facility	300	231	69
Total financing facilities	<u>450,300</u>	<u>400,231</u>	<u>50,069</u>
2011			
\$35,000,000 bank loan	35,000	35,000	-
\$85,000,000 bank loan	85,000	55,000	30,000
\$270,000,000 bank loan	270,000	270,000	-
Guarantee facility	81	80	1
Total financing facilities	<u>390,081</u>	<u>360,080</u>	<u>30,001</u>

Financial covenants in place include debt cover ratios, gearing ratio and consolidated net worth.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

23. CONTRIBUTED EQUITY

	2012 \$000	2011 \$000
Ordinary shares – issued and fully paid (a)	239,473	238,296
	<u>239,473</u>	<u>238,296</u>

(a) Ordinary shares

Movement in ordinary shares on issue

Date	Details	Number of shares	Issue price	\$000
01 January 2011	Opening balance	264,264,459		172,785
10 May 2011	Share placement	39,639,668	1.42	56,288
10 June 2011	Share purchase plan	8,033,008	1.42	11,408
02 August 2011	Shares issued under executive option plan (EOP)	924,000	1.00	924
	Transaction costs arising on share issue			(3,109)
31 December 2011	Closing balance	<u>312,861,135</u>		<u>238,296</u>
01 January 2012	Opening balance	312,861,135		238,296
02 April 2012	Shares issued on exercise of performance rights	43,950		-
14 May 2012	Outstanding amount received for shares issued under the executive option plan in the prior year			1,308
	Additional transactions costs relating to share placement in the prior year			(131)
31 December 2012	Closing balance	<u>312,905,085</u>		<u>239,473</u>

(b) Capital management

When managing capital, our objective is to safeguard our ability to continue as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. We also aim to maintain a capital structure that ensures the lowest cost of capital.

There were no changes made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 31 December 2011.

We monitor capital using the gearing ratio (net debt divided by total capital plus net debt) and our target gearing ratio is between 30% to 40%. We include within net debt, interest bearing loans and borrowings, less cash and cash equivalents, excluding discontinued operations.

	2012 \$000	2011 \$000
Interest bearing loans and borrowings	410,546	367,569
Less cash and cash equivalents	<u>(22,362)</u>	<u>(23,369)</u>
Net debt	388,184	344,200
Total equity	638,639	671,987
Total capital	<u>1,026,823</u>	<u>1,016,187</u>
Gearing ratio	38%	34%

For the Group's financial risk management objectives and policies refer note 4.

24. RETAINED EARNINGS AND RESERVES

	2012 \$000	2011 \$000
(a) Movements in retained earnings were as follows:		
At 1 January	82,692	72,167
Net profit	<u>(8,409)</u>	<u>10,525</u>
At 31 December	<u>74,283</u>	<u>82,692</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

24. RETAINED EARNINGS AND RESERVES (continued)

(b) Other reserves

	Asset Revaluation Reserve \$000	Capital Profits Reserve \$000	Cash Flow Hedge Reserve \$000	Employee Equity Benefits Reserve \$000	Total \$000
At 1 January 2011	274,344	68,484	-	4,854	347,682
Revaluation of land and buildings	9,543	-	-	-	9,543
Loss on revaluation of plant and equipment	(986)	-	-	-	(986)
Tax effect of revaluation	(3,100)	-	-	-	(3,100)
Transfer of realised capital profits	(9,739)	9,739	-	-	-
Net movement in cash flow hedges	-	-	(2,249)	-	(2,249)
Share based payment	-	-	-	109	109
At 31 December 2011	270,062	78,223	(2,249)	4,963	350,999
Revaluation of land and buildings	(32,735)	-	-	-	(32,735)
Loss on revaluation of plant and equipment	-	-	-	-	-
Tax effect of revaluation	10,081	-	-	-	10,081
Transfer of realised capital profits	-	-	-	-	-
Net movement in cash flow hedges	-	-	(3,830)	-	(3,830)
Share based payment	-	-	-	368	368
At 31 December 2012	247,408	78,223	(6,079)	5,331	324,883

(i) Nature and purpose of reserves

Asset revaluation reserve

The asset revaluation reserve is used to record increments and decrements in the fair value of land and buildings to the extent that they offset one another. The reserve can only be used to pay dividends in limited circumstances.

Capital profits reserve

The capital profits reserve is used to accumulate realised capital profits. The reserve can be used to pay dividends.

Cash flow hedge reserve

The cash flow hedge reserve is used to record the portion of movements in fair value of a hedging instrument in a cash flow hedge that is recognised in other comprehensive income.

Employee equity benefits reserve

The employee equity benefits reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration. Refer to note 28 for further details of these plans.

25. RELATED PARTY DISCLOSURES

(a) Transactions with key management personnel

Directors of the Group and Directors of its related parties, or their Director-related entities, conduct transactions with entities within the Group that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonable to expect the entity would have adopted if dealing with the Director or Director-related entity at arm's length in similar circumstances.

These transactions include the following and have been quantified below where the transactions are considered likely to be of interest to users of these financial statements.

Mr N. Burton Taylor, who was a non-executive director of AACo until his resignation on 16 March 2012, is a Principal of Hillgrove Pastoral Company (Hillgrove). Hillgrove has entered into sale and purchase transactions with the Group with respect to livestock on commercial terms and conditions no more favourable than those available to other suppliers and customers. The following transactions occurred with Hillgrove:

	2012 \$	2011 \$
Sales to Hillgrove and related entities	-	3,260
Purchases from Hillgrove and related entities	3	613,686

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

25. RELATED PARTY DISCLOSURES (continued)

(a) Transactions with key management personnel

The transactions for 2012 are in respect of the period to the date of the resignation of Mr. N. Burton Taylor. There were no outstanding balances at the end of the reporting period in relation to transactions with Hillgrove and its related entities (2011: nil).

Mr D. McGauchie, Chairman of AACo, is a Director of GrainCorp Limited. GrainCorp Limited has entered into sale and purchase transactions with the Group with respect to grain on commercial terms and conditions no more favourable than those available to other suppliers and customers.

	2012	2011
	\$	\$
The following transactions occurred with GrainCorp Limited:		
<i>Sales to GrainCorp Limited and related entities</i>	2,507,763	-
<i>Purchases from Graincorp Limited and related entities</i>	898,677	786,325

The following balances were outstanding at the end of the reporting period in relation to transactions with GrainCorp Limited:

<i>Current receivable</i>	1,799,613	-
<i>Current payable</i>	94,119	-

(b) Transactions with related parties in the wholly owned Group

Loans

Loans are made by the parent entity to wholly owned subsidiaries. The loans are repayable on demand. No interest has been charged on these loans by the parent entity for the current financial period (31 December 2011: nil). The parent entity does not expect to call these loans within the next 12 months.

(c) Transactions with other related parties

There were no transactions with other related parties during the year ended 31 December 2012 (31 December 2011: nil).

(d) Ultimate parent entity

The ultimate controlling entity of the Group is Australian Agricultural Company Limited.

26. CONTROLLED ENTITIES

The consolidated financial statements include the following controlled entities:

Name of entity	Notes	Country of incorporation	2012 % of shares held	2011 % of shares held
Parent entity				
Australian Agricultural Company Limited	(a)	Australia		
Controlled entities				
A. A. Company Pty Ltd	(a)	Australia	100	100
Austcattle Holdings Pty Ltd	(a)	Australia	100	100
A. A. & P. Joint Holdings Pty Ltd	(a)	Australia	100	100
Shillong Pty Ltd	(a)	Australia	100	100
James McLeish Estates Pty Limited	(a)	Australia	100	100
Wondoola Pty Ltd	(a)	Australia	100	100
Waxahachie Pty Ltd	(a)	Australia	100	100
Naroo Pastoral Company Pty Limited	(a)	Australia	100	100
AACo Nominees Pty Limited	(a)	Australia	100	100
Chefs Partner Pty Ltd	(a)	Australia	100	100
Polkinghorne Stores Pty Limited		Australia	100	100
North Australian Beef Limited		Australia	100	100
AACO Risk Management Pty Limited		Australia	100	100

- (a) These companies have entered into a deed of cross guarantee dated 22 November 2006 with Australian Agricultural Company Limited which provides that all parties to the deed will guarantee to each creditor payment in full of any debt of each company participating in the deed on winding-up of that company. As a result of a Class Order issued by the Australian Securities and Investments Commission, these companies are relieved from the requirement to prepare financial statements. The consolidated income statement and consolidated statement of financial position of all entities included in the class order "closed Group" are set out at footnote (b).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

26. CONTROLLED ENTITIES (continued)	2012	2011
	\$000	\$000
(b) Financial information for class order Closed Group		
Current Assets		
Cash and cash equivalents	22,362	23,369
Trade and other receivables	43,852	25,110
Inventories	25,644	25,146
Biological assets – livestock	166,338	168,354
Derivatives	720	30
Other assets	1,944	723
Total Current Assets	260,860	242,732
Non-Current Assets		
Receivables	-	9
Biological assets – livestock	330,156	315,329
Property, plant and equipment	579,282	606,897
Investment – at cost	50	50
Deferred tax assets	-	2,786
Total Non-Current Assets	909,488	925,071
Total Assets	1,170,348	1,167,803
Current Liabilities		
Trade and other payables	32,795	25,793
Provisions	2,882	2,310
Interest bearing liabilities	2,919	56,421
Derivatives	6,640	4,469
Current tax liabilities	101	192
Total Current Liabilities	45,337	89,185
Non-Current Liabilities		
Provisions	513	444
Interest bearing liabilities	407,627	311,148
Deferred tax liabilities	75,355	92,162
Total Non-Current Liabilities	483,495	403,754
Total Liabilities	528,832	492,939
Net Assets	641,516	674,864
Equity		
Contributed equity	239,473	238,296
Reserves	324,883	350,999
Retained earnings	77,160	85,569
Total Equity	641,516	674,864

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

26. CONTROLLED ENTITIES (continued)	2012	2011
	\$000	\$000
(b) Financial information for class order Closed Group (continued)		
Income Statement of the Closed Group:		
Revenue from continuing operations		
Cattle sales	161,608	162,678
Meat sales	140,376	135,151
Crop income	19,188	8,171
	<u>321,172</u>	<u>306,000</u>
Cattle growth	76,840	66,224
Cattle fair value adjustments	87,550	105,153
	<u>485,562</u>	<u>477,377</u>
Deemed cost of cattle sold	(161,608)	(162,678)
Cattle expenses	(37,415)	(31,182)
Feedlot cattle expenses	(29,529)	(27,796)
Cost of meat sold	(136,235)	(130,146)
Crop costs	(11,347)	(6,720)
Gross operating margin	<u>109,428</u>	<u>118,855</u>
Other revenue	2,681	1,894
Other income	1,920	5,974
Expenses		
Administration and other non-station operating costs	(14,939)	(13,060)
Business development	(2,121)	(1,382)
Depreciation, amortisation and impairment	(17,490)	(9,750)
Employee expenses	(34,224)	(29,401)
Lease and property related costs	(6,968)	(3,899)
Other station operating costs	(23,596)	(18,041)
Profit from continuing operations before finance costs and income tax expense	<u>14,691</u>	<u>51,190</u>
Net finance costs	(27,132)	(31,067)
(Loss)/Profit from continuing operations before income tax	<u>(12,441)</u>	<u>20,123</u>
Income tax benefit/(expense)	4,032	(5,712)
(Loss)/Profit from continuing operations after related income tax benefit/(expense)	<u>(8,409)</u>	<u>14,411</u>
Profit/(Loss) from discontinued operations after related income tax	<u>-</u>	<u>(3,886)</u>
Net (loss)/profit after tax	<u>(8,409)</u>	<u>10,525</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

27. KEY MANAGEMENT PERSONNEL

	2012 \$	2011 \$
(a) Compensation for key management personnel		
Short-term employee benefits	3,732,444	3,099,294
Post-employment benefits	259,201	327,594
Termination benefits	-	9,785
Share-based payment	516,638	106,811
Total compensation	4,508,283	3,543,484

(b) Options and performance rights

The table below summarises the movements during the year in holdings of options and performance right interests for the key management personnel, including their personally related parties, in the Company for the period.

2012	Balance at beginning of period Number	Granted as remuneration ² Number	Net change other ¹ Number	Exercised during the year Number	Balance at end of period Number	Not vested and not exercisable Number	Vested and exercisable Number
<u>Options</u>							
Executives							
B. Bennett	227,896	-	-	-	227,896	-	227,896
P. Dempsey	347,633	-	-	-	347,633	-	347,633
<u>Performance rights</u>							
Directors							
D. Farley	410,023	301,962	-	-	711,985	711,985	
Executives							
T. Setter	28,894	71,560	-	(14,447)	86,007	86,007	-
P. Beale	-	44,426	-	-	44,426	44,426	-
B. Bennett	20,844	23,761	-	(10,422)	34,183	34,183	-
P. Dempsey	12,487	7,379	-	(6,241)	13,625	13,625	-
G. Dober	6,239	15,621	-	(3,120)	18,740	18,740	-
S. Cruden	-	18,980	-	-	18,980	18,980	-
2011	Balance at beginning of period Number	Granted as remuneration Number	Net change other ¹ Number	Exercised during the year Number	Balance at end of period Number	Not vested and not exercisable Number	Vested and exercisable Number
<u>Options</u>							
Executives							
B. Bennett	227,896	-	-	-	227,896	-	227,896
P. Dempsey	347,633	-	-	-	347,633	-	347,633
<u>Performance rights</u>							
Directors							
D. Farley	-	410,023	-	-	410,023	410,023	-
Executives							
T. Setter	-	28,894	-	-	28,894	28,894	-
B. Bennett	-	20,844	-	-	20,844	20,844	-
P. Dempsey	-	12,487	-	-	12,487	12,487	-
G. Dober	-	6,239	-	-	6,239	6,239	-

¹ Includes forfeitures.

² Details of options/rights granted as remuneration during 2012 are provided in section 8 of the 2012 Remuneration Report.

No other Directors or executives held options or performance rights during the period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

27. KEY MANAGEMENT PERSONNEL (continued)

(c) Shares

The table below summarises the movements during the year in the share holdings of key management personnel, including their personally related parties, in the Company for the period.

2012	Balance at beginning of period Number	Granted as remuneration Number	Exercise of options Number	Net change other ³ Number	Balance at end of period Number
Directors					
D. McGauchie	198,689	-	-	150,000	348,689
D. Farley	339,063	-	-	77,250	416,313
S. Black	-	-	-	10,000	10,000
N. Burton Taylor ²	6,305,802	-	-	(6,305,802)	-
C. Roberts ²	60,563	-	-	(60,563)	-
Executives					
P. Dempsey	161,705	-	6,241	-	167,946
B. Bennett	-	-	10,422	-	10,422
G. Dober	-	-	3,120	-	3,120
T. Setter	-	-	14,447	-	14,447
Total	7,065,822	-	34,230	(6,129,115)	970,937
2011	Balance at beginning of period Number	Granted as remuneration Number	Exercise of options Number	Net change other³ Number	Balance at end of period Number
Directors					
D. McGauchie	37,000	-	-	161,689	198,689
D. Farley	212,500	-	-	126,563	339,063
N. Burton Taylor	6,274,113	-	-	31,689	6,305,802
C. Roberts	50,000	-	-	10,563	60,563
Datuk Abdul Samad ¹	10,000	-	-	(10,000)	-
Executives					
P. Dempsey	161,705	-	-	-	161,705
Total	6,745,318	-	-	320,504	7,065,822

¹ Datuk Abdul Samad resigned on 26 January 2011.

² N. Burton Taylor and C. Roberts resigned on 16 March 2012.

³ Net shares acquired or disposed of by other means, and the removal from the table of the shareholdings for key management personnel who have resigned during the period.

No other Directors or executives held shares during the period.

All equity transactions with Directors and executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

Notes to the Consolidated Financial Statements

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28. SHARE-BASED PAYMENT PLANS

(a) Recognised share-based payment expenses	2012 \$	2011 \$
Expense arising from equity-settled share-based payment transactions	751,000	109,000

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2012 and 2011.

(b) Executive Option Plan (EOP)

The Group has one Executive Option Plan (EOP) for the granting of non-transferable options to the Managing Director/ Chief Executive Officer, senior executives and middle management with more than twelve months' service at the grant date. There will be no further grants under this Plan.

Chief Executive Officer – Executive Options

No options were issued to Mr. D. Farley in 2012 and 2011.

Mr. D. Farley (CEO) was appointed on 1 December 2009 and under the terms of his executive service agreement he is entitled to an LTI benefit up to a maximum of 50% of fixed remuneration.

Senior Executive - Executive Options

No options were granted to senior executives in 2012 and 2011.

During the 2011 financial year there were 924,000 options exercised during the period by a former senior executive.

Middle Management – Executive Options

No options were granted to middle management in 2012 and 2011.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of share options previously issued under the EOP.

	2012 No.	2012 WAEP \$	2011 No.	2011 WAEP \$
Outstanding at the beginning of the year	3,973,407	2.52	5,628,051	2.29
Granted during the year	-	-	-	-
Forfeited during the year	(762,928)	2.82	(730,644)	2.64
Exercised during the year	-	-	(924,000)	1.00
Outstanding at the end of the year	3,210,479	2.45	3,973,407	2.52
Exercisable at the end of the year	3,210,479	2.45	3,973,407	2.52

Terms of the Executive Option Plan

An employee whose employment terminates prior to the vesting of any tranche will lose their unvested option entitlement, unless otherwise determined by the Board.

Under the EOP where a participant ceases employment prior to the vesting of their award, the options are forfeited unless the Board applies its discretion to allow vesting at or post-cessation of employment in appropriate circumstances.

In the event of a takeover or change in control of the Company:

- 50% of unvested options granted within the last three years prior to the change in control, would vest, as soon as the Board forms the opinion that the takeover or change in control will occur; and
- all or part of the other 50% of the unvested options granted within the last three years may be vested by the Board as determined in its absolute discretion.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

28. SHARE-BASED PAYMENT PLANS (continued)

(b) Executive Option Plan (EOP) (continued)

The outstanding balance as at 31 December 2012 is represented by:

- 250,000 options over ordinary shares with an exercise price of \$1.00 each;
- 350,000 options over ordinary shares with an exercise price of \$1.39 each;
- 1,193,487 options over ordinary shares with an exercise price of \$2.09 each;
- 76,000 options over ordinary shares with an exercise price of \$3.15 each; and
- 1,340,992 options over ordinary shares with an exercise price of \$3.27 each.

Share options issued under the EOP and outstanding at the end of the year have the following exercise prices:

Expiry Date	Exercise Price (\$)	2012 No.	2011 No.
01 January 2013	2.09	902,862	1,192,167
01 January 2013	3.15	76,000	76,000
16 December 2013	1.00	250,000	250,000
01 January 2014	3.27	1,040,992	1,514,615
31 March 2015	1.39	350,000	350,000
01 January 2018	2.09	290,625	290,625
01 January 2019	3.27	300,000	300,000
Total		3,210,479	3,973,407

(c) Employee share plan (ESP)

On 12 September 2005 we introduced an employee share plan (ESP). This plan allows shares in Australian Agricultural Company Limited to be provided to all employees (excluding those participating in the EOP and Directors) with greater than one year of service up to the value of \$1,000. No shares were issued to employees under the ESP in 2012 (2011: nil).

The fair value of the employee benefit provided under the ESP is estimated at cost at the grant date.

(d) Performance rights plan

During 2011 we introduced a performance rights plan. The purpose of the plan is to assist in the reward, retention and motivation of Executive Directors, Employees, and any other person determined by the Board in its sole and absolute discretion and, attract new employees and/or officers to the Group. The performance rights have a nil exercise price. Vesting of the performance rights is dependent on the satisfaction of a service vesting condition and/or a performance condition. Any performance rights which fail to meet the service condition on the vesting date will lapse immediately. Once the performance rights have vested, they are automatically exercised and shares in AACo issued to either the AACo Employee Share Scheme Trust (EST) or acquired on-market by the EST Trustee on behalf of the participant.

The following tables summarise the movements in performance rights:

2012

Grant date	Expiry date	Exercise price	Balance at start of year Number	Rights granted during year Number	Rights exercised during year Number	Rights lapsed during year Number	Balance at end of year Number	Vested and exercisable at end of the year Number
19 Sept 2011	30 April 2012	Nil	43,950	-	(43,950)	-	-	-
19 Sept 2011	30 April 2013	Nil	43,944	-	-	-	43,944	-
19 Sept 2011	30 April 2013	Nil	105,271	-	-	-	105,271	-
19 Sept 2011	30 April 2013	Nil	105,270	-	-	-	105,270	-
19 Sept 2011	30 April 2014	Nil	99,741	-	-	-	99,741	-
19 Sept 2011	30 April 2014	Nil	99,741	-	-	-	99,741	-
27 April 2012	24 May 2013	Nil	-	133,429	-	-	133,429	-
27 April 2012	24 May 2014	Nil	-	133,424	-	-	133,424	-
27 April 2012	14 June 2013	Nil	-	32,353	-	-	32,353	-
27 April 2012	14 June 2014	Nil	-	32,353	-	-	32,353	-
27 April 2012	30 April 2015	Nil	-	237,256	-	-	237,256	-
			497,917	568,815	(43,950)	-	1,022,782	-

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

28. SHARE-BASED PAYMENT PLANS (continued)

(d) Performance rights plan (continued)

2011

Grant date	Expiry date	Exercise price	Balance at start of year Number	Rights granted during year Number	Rights exercised during year Number	Rights lapsed during year Number	Balance at end of year Number	Vested and exercisable at end of the year Number
19 Sept 2011	30 April 2012	Nil	-	43,950	-	-	43,950	-
19 Sept 2011	30 April 2013	Nil	-	43,944	-	-	43,944	-
19 Sept 2011	30 April 2013	Nil	-	105,271	-	-	105,271	-
19 Sept 2011	30 April 2013	Nil	-	105,270	-	-	105,270	-
19 Sept 2011	30 April 2014	Nil	-	99,741	-	-	99,741	-
19 Sept 2011	30 April 2014	Nil	-	99,741	-	-	99,741	-
			-	497,917	-	-	497,917	-

The weighted average remaining contractual life for the rights as at 31 December 2012 is 429 (2011: 673) days and the weighted average fair value of rights granted during the year was \$1.2075 (2011: \$1.221). A total of 331,559 of the rights issued were in respect of the 2011 year (2011: 87,894 in respect of the 2010 year).

The following table lists the inputs to the models used for the performance rights:

2012

Grant date	Expected life of rights (days)	Share price at grant date	Exercise price	Expected volatility	Expected dividend yield	Risk free interest rate	Weighted average fair value of options granted	Model used
27 April 2012	392	\$1.285	-	30.00%	-	3.64%	\$1.2854	Black Scholes
27 April 2012	727	\$1.285	-	30.00%	-	3.65%	\$1.2857	Black Scholes
27 April 2012	413	\$1.285	-	30.00%	-	3.64%	\$1.2854	Black Scholes
27 April 2012	778	\$1.285	-	30.00%	-	3.65%	\$1.2857	Black Scholes
27 April 2012	1,098	\$1.285	-	30.00%	-	2.95%	\$0.9110	Monte Carlo
27 April 2012	1,098	\$1.285	-	30.00%	-	2.95%	\$1.2858	Black Scholes

2011

Grant date	Expected life of rights (days)	Share price at grant date	Exercise price	Expected volatility	Expected dividend yield	Risk free interest rate	Weighted average fair value of options granted	Model used
19 Sept 2011	194	\$1.410	-	32.50%	-	3.96%	\$1.4102	Binomial
19 Sept 2011	559	\$1.410	-	32.50%	-	3.91%	\$1.4106	Binomial
19 Sept 2011	559	\$1.410	-	32.50%	-	3.91%	\$0.8454	Monte Carlo
19 Sept 2011	559	\$1.410	-	32.50%	-	3.91%	\$1.4106	Monte Carlo
19 Sept 2011	924	\$1.410	-	32.50%	-	3.58%	\$1.0624	Monte Carlo
19 Sept 2011	924	\$1.410	-	32.50%	-	3.58%	\$1.4109	Monte Carlo

Performance Rights issued are subject to the following terms and conditions:

1. External Performance Condition (TSR outperformance)

50% of the Performance Rights are subject to an external Performance Condition, namely, AACo's Total Shareholder Return (TSR) performance relative to the S&P/ASX Small Ordinaries Accumulation Index (ASX Code: XSOAI) measured over a three year Vesting Period.

Vesting of the Performance Rights subject to the TSR outperformance condition will be calculated based on the following percentile results in the table below:

AACo TSR Ranking versus S&P/ASX Small Ords Accumulation Index (XSOAI)	% of Performance Rights to vest
Below the 50th percentile	0% vest
At the 50th percentile	50% vest
Between the 50th and 75th percentile	2% vesting on a straight line interpolation for each percentile ranking
At or above the 75th percentile	100% vest

The Company's TSR will be measured by an independent third party over the Vesting Period. The testing of the TSR outperformance condition will occur at the end of the Vesting Period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

28. SHARE-BASED PAYMENT PLANS (continued)

(d) Performance rights plan (continued)

2. Internal Performance Condition (EPS)

50% of the Performance Rights are subject to an internal Performance Condition based on the Company's earnings per share (EPS).

EPS is defined as Adjusted Net after Tax Profit per Ordinary Share, where Adjusted Net after Tax Profit is calculated as follows:

- Annual reported Net Profit after Tax Profit
- Less: Valuation adjustments
- Less: any adjustment deemed fair and appropriate by the Board, in the Board's absolute discretion.

The Board in its absolute discretion may vary this formula from year to year to reflect the changing nature of the Group's operations and its operating environment.

Vesting of the Performance Rights subject to the EPS condition will be calculated based on the following compound % growth rates over the three financial years following the base year the Performance Rights are established.

EPS Compound Growth Rate	% of Performance Rights to vest
Compound growth rate of less than 7.5% p.a.	0% vest
Compound growth rate of at least 7.5% p.a.	50% vest
Compound growth rate between 7.5% p.a. and 10% p.a.	2% vesting on a straight line interpolation for each 0.1% increment in EPS.
Compound growth rate of 10% p.a. or more	100% vest

3. Termination and change in control provisions

Under the terms of the LTI if the Managing Director/Chief Executive Officer ceases employment with the Company and holds Performance Rights, the ability of the Managing Director/Chief Executive Officer to retain their Performance Rights will depend on the circumstances in which the employment ceases. The Plan Rules define Bad Leavers and Good Leavers.

If the executive was a Bad Leaver, then the Performance Rights will be automatically forfeited. If the executive was a Good Leaver, then the Board will consider the circumstances of the cessation of employment and may exercise its discretion to allow some or all of the Performance Rights to vest (and be exercised).

A change of control event occurs when any person, either alone or together with any "associate" (as defined in the *Australian Corporations Act*) who does not hold a relevant interest in more than 50% of the issued shares of the Company acquires a relevant interest in more than 50% of the issued shares, or the Board concludes that there has been a change in control of the Company then one of the following will occur in respect of all unvested Performance Rights or Deferred Equity Awards. The Performance Rights or Deferred Equity Awards will either vest on a pro rata basis or at the discretion of the Board in certain circumstances.

29. COMMITMENTS

(a) Future minimum lease payments under non-cancellable operating leases at 31 December are as follows:

	2012 \$000	2011 \$000
Leased land and buildings:		
Not later than one year	3,886	2,361
Later than one year but not later than five years	8,298	3,318
Total leased land and buildings	12,184	5,679

Property, plant and equipment lease rental payments are generally fixed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

29. COMMITMENTS (continued)

(b) Finance lease expenditure contracted for is payable as follows:

We have entered into finance leases for motor vehicles. Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	2012	2011
	\$000	\$000
Within one year	1,570	700
After one year but not more than five years	5,807	2,853
Total minimum lease payments	7,377	3,553

(c) Equipment finance contracted for is payable as follow:

We have entered into asset finance arrangements for equipment. Future minimum payments under equipment finance together with the present value of the net minimum finance payments are as follows:

	2012	2011
	\$000	\$000
Within one year	984	721
Later than one year but not later than five years	3,838	3,295
Total equipment finance	4,822	4,016

(d) Other commitments

We have entered into forward purchase contracts for \$2,394,000 worth of grain commodities as at 31 December 2012 (2011: \$5,469,635). The contracts are expected to be settled within 12 months from balance date.

We have entered into forward purchase contracts for \$19,186,800 worth of cattle as at 31 December 2012 (2011: \$7,758,800). The contracts are expected to be settled within 12 months from balance date.

We have entered into contracts to deliver 14,000 (2011: 13,500) bales of cotton between May 2013 and July 2013 with a contract value of \$6,426,980 (2011: \$7,256,635).

30. CONTINGENCIES

(a) Guarantees

Contingent liabilities at balance date, not otherwise provided for in these financial statements are categorised as follows:

	2012	2011
	\$000	\$000
Bank guarantees provided in relation to premises	231	80

(b) Native title claims

At 31 December 2012 there are a number of native title claims over some of our cattle properties. Negotiations are continuing with stakeholders to resolve these claims. We are not aware of any native title rights that may be found to co-exist with our rights and as such we do not expect any impact on the business to result from native title claims.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

31. AUDITORS' REMUNERATION

Remuneration received, or due and receivable, by the auditor, Ernst & Young, of the parent entity for:

	2012	2011
	\$	\$
An audit or review of the financial report of the entity and any other entity in the consolidated Group	397,836	487,703
Other services in relation to the entity and any other entity in the consolidated Group		
• Advisory services	12,251	27,500
• Tax related services	-	11,330
	<u>410,087</u>	<u>526,533</u>

32. INFORMATION RELATING TO THE PARENT ENTITY

	2012	2011
	\$000	\$000
Current assets	1,010	73
Non-current assets	796,063	777,184
Total assets	<u>797,073</u>	<u>777,257</u>
Current liabilities	9,517	65,144
Non-current liabilities	412,226	317,933
Total liabilities	<u>421,743</u>	<u>383,077</u>
Net assets	<u>375,330</u>	<u>394,180</u>
Issued capital	244,097	242,920
Asset revaluation reserve	47,694	45,355
Capital profits reserve	110,777	110,777
Cash flow hedge reserve	(6,079)	(2,249)
Employee equity benefits reserve	5,331	4,963
Accumulated losses	(26,490)	(7,586)
Total equity	<u>375,330</u>	<u>394,180</u>
Loss of the parent entity	(18,903)	(20,810)
Total comprehensive loss of the parent entity	<u>(20,026)</u>	<u>(22,476)</u>

(a) Guarantees entered into by the parent entity

Australian Agricultural Company Ltd and the wholly owned entities listed in note 26 are parties to a deed of cross guarantee as described in note 26. The nature of the deed of cross guarantee is such that each Company which is party to the deed guarantees, to each creditor, payment in full of any debt in accordance with the deed of cross guarantee. No deficiency of net assets existed for the Group as at 31 December 2012.

No liability was recognised by Australian Agricultural Company Ltd in relation to these guarantees, as the fair value of the guarantees is immaterial.

(b) Contingent liabilities of the parent entity

	2012	2011
	\$000	\$000
<i>Guarantees and indemnities</i>		
Bank guarantees provided in relation to premises	<u>231</u>	<u>80</u>

(c) Contractual commitments for the acquisition of property, plant or equipment

Australian Agricultural Company Ltd did not have any commitments for the acquisition of property, plant and equipment as at 31 December 2012 or 31 December 2011.

(d) Accounting policies

The accounting policies of the parent entity, which have been applied in determining the financial information shown above, are the same as those applied in the consolidated financial statements except for investments in subsidiaries are accounted for at cost in the financial statements of Australian Agricultural Company Limited.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

33. SUBSEQUENT EVENTS

The company has announced that it will be changing its financial year-end from 31 December to 31 March, effective 31 March 2013. This change more closely aligns the company's reporting period with its sale cycles, assisting with forecasting, cash flow management and investment decisions and therefore the Board has determined that this change is in the best interests of the company. The Australian Securities and Investments Commission have been notified of this change. The company will therefore report on a three month accounting period from 1 January 2013 to 31 March 2013. It is expected that the results will be published by the end of April 2013. Normal half and full-year reporting periods will follow, commencing 1 April 2013.

There have been no other significant events after the reporting date which require disclosure in the financial report.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of the Australian Agricultural Company Limited, we state that:

1. In the opinion of the Directors:
 - a) The financial statements and notes of Australian Agricultural Company Limited for the financial year ended 31 December 2012 are in accordance with the *Corporations Act 2001*, including:
 - (i) Giving a true and fair view of its financial position as at 31 December 2012 and of its performance for the year ended on that date.
 - (ii) Complying with Accounting Standards and *Corporations Regulations 2001*.
 - b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(c).
 - c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2012.
3. In the opinion of the Directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 26 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

A handwritten signature in dark ink, appearing to read 'D. McGauchie', with a long horizontal flourish extending to the right.

D. McGauchie
Chairman

Brisbane
31 January 2013

Independent auditor's report to the members of Australian Agricultural Company Limited

Report on the financial report

We have audited the accompanying financial report of Australian Agricultural Company Limited, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

- a. the financial report of Australian Agricultural Company Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 16 to 29 of the directors' report for the year ended 31 December 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Australian Agricultural Company Limited for the year ended 31 December 2012, complies with section 300A of the *Corporations Act 2001*.

A stylized blue ink signature of the Ernst & Young firm.

Ernst & Young

A blue ink signature of Mike Reid.

Mike Reid
Partner
Brisbane
31 January 2013

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in the annual report is as follows. The information is current as at 11 January 2013.

(a) Distribution of equity securities

Ordinary share capital

312,905,085 fully paid ordinary shares are held by 7,375 individual shareholders

All ordinary shares carry one vote per share and carry the rights to dividends.

The number of shareholders, by size of holding is:

Number of Shares	Number of Shareholders
1 to 1,000	1,475
1,001 to 5,000	3,146
5,001 to 10,000	1,258
10,001 to 100,000	1,398
100,001 and Over	98
TOTAL	7,375

(b) Twenty largest holders of quoted equity securities

The names of the twenty largest holders of quoted shares as shown in the Company's Share Register are:

	Number	Percentage
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	54,044,273	17.27%
IFFCO POULTRY CO SDN BHD	52,849,668	16.89%
CITICORP NOMINEES PTY LIMITED	32,429,065	10.36%
SOUTHEAST POINT LIMITED	23,732,251	7.58%
J P MORGAN NOMINEES AUSTRALIA LIMITED	17,275,101	5.52%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	14,062,761	4.49%
JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	10,064,870	3.22%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	8,202,703	2.62%
NATIONAL NOMINEES LIMITED	6,051,071	1.93%
NBT PTY LIMITED <ASTOR SUPER FUND A/C>	3,604,641	1.15%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	3,494,658	1.12%
BNP PARIBAS NOMS PTY LTD <MASTER CUST DRP>	3,012,838	0.96%
NEASHAM HOLDINGS PTY LTD <THE NEASHAM A/C>	2,441,471	0.78%
NBT PTY LTD	1,532,405	0.49%
CATHOLIC CHURCH INSURANCE LTD	1,510,512	0.48%
MR ANTHONY MAURICI	1,480,716	0.47%
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	1,453,919	0.46%
MR DAVID DIXON + MS CATHERINE RAMM	1,235,969	0.39%
BNP PARIBAS NOMS PTY LTD <DRP>	1,194,734	0.38%
WARMAN (NOMINEES) PTY LTD <THE WARMAN INVEST A/C>	848,983	0.27%

ASX ADDITIONAL INFORMATION (continued)**(c) Substantial shareholders**

The names of substantial shareholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

Ordinary shareholders	Number
IFFCO Poultry SDN BHD	52,849,668
Southeast Point Ltd and Wisemoor (PTC) Limited	33,767,365
Wellington Management Company, LLP, and its related bodies corporate	27,417,514
Dimensional Fund Advisors LP and its associates and related bodies corporate	15,652,112

(d) Marketable Shares

The number of security investors holding less than a marketable parcel of 439 securities (\$1.140 on 11 January 2013) is 552 and they hold 102,799 securities.



COMPANY INFORMATION

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Share Registry

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www.linkmarketservices.com.au

AACo shares are quoted
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Exchange under listing
Code AAC.

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Bankers

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Sydney NSW 2000

ANZ
16/324 Queen Street
Brisbane QLD 4000

Rabobank
Darling Park Tower 3
Level 16, 201 Sussex Street
Sydney NSW 2000

Commonwealth Bank
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Business and Private Banking
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