



Australian Agricultural Company Limited
ABN 15 010 892 270

AACo FY2013 Annual General Meeting

21 August 2013

Chairman's Address

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Attached is the Chairman's Address for the FY2013 Annual General Meeting of the Australian Agricultural Company Limited ('AACo') held today.

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AACo Annual General Meeting – August 21, 2013

Chairman's Address

This is our second Annual General Meeting of the calendar year, a necessity brought about by the company's decision to move its year-end reporting date from 31 December to 31 March.

This better aligns the company's reporting with its business cycle, including the end of the wet season.

As a consequence of this decision, the company is required to hold an Annual General Meeting for the three-month period from 1 January to 31 March 2013.

As it's only a three-month period, I don't intend to take up too much of your time today before moving to formal business.

I would like to report to you on several matters regarding the business.

First, I would like to give you some context around the conditions and results for the quarter to 31 March 2013, which have already been discussed in detail in our Annual Report.

I will also provide you with further detail around the company's future strategy, which will include the search for a new Chief Executive Officer following the recent departure of David Farley.

And last, I will give you an important update on progress of the company's Darwin abattoir project, which is an essential component in the company's strategy.

I will then hand over to our Chief Financial Officer and interim Chief Executive Officer Craig White, to provide you with some further detail about the operations since the end of the quarter to 31 March 2013.

It is important to note that the three-month result to 31 March 2013 is not representative of results for a full 12-month period as the bulk of cattle sales and profit are generated outside of this three-month period.

During this summer in Northern Australia, and earlier in the southern spring, the country experienced one of the worst droughts in recent times. This seriously affected the result for the three-month period to 31 March 2013.

A lack of grass, together with the continuing fallout from the Federal Government's 2011 suspension of live cattle exports to Indonesia, forced an oversupply of cattle onto the domestic market which in turn caused a significant drop in domestic cattle prices to levels we have not seen since the 1970s.

Under Australian accounting standards, the company must regularly revalue its entire herd based primarily on domestic cattle prices.

The slump in domestic cattle prices had a significant adverse effect on the company's financial results for the three-month period, being a \$43.2 million non-cash, pre-tax write-down of the market value of the company's 676,000-head herd.

I emphasise the majority - some \$35 million worth of the cattle written down in value - were long life-cycle, breeding cows and young grower cattle, which are not intended for immediate sale.

This non-cash write-down was the key driver of the net loss after tax of \$46.5 million for the quarter.

During the three-month period AACo increased both cattle sales, albeit at significantly lower prices, and wholesale beef revenue.

It is important to note that while P&L earnings were poor, operating cash flows remained approximately in line with the previous corresponding period ended 31 March 2012.

The slump in domestic cattle prices is at odds with continuing higher global beef prices and reinforces the company's decision to capture these higher global prices through a strategy of vertical integration, which I outlined at the March AGM.

AACo is now clearly focused on driving shareholder value by building a global, vertically integrated red meat supply chain, with particular focus on Asian markets, servicing the rising demand for red meat protein.

Predictions from ABARES, the Australian Bureau of Agricultural and Resource Economics and Sciences, are that Australia will need to double its food production by 2050 to meet demand from the Asian region.

This demand is coming from the emergence of an Asian mega middle class – which in the next 15 years alone will increase sixfold to 3.2 billion people, more than five times the total population of Europe and the United States combined.

Their rising incomes mean an increased demand for better food, including red meat protein.

This means a much bigger population will no longer be satisfied with essentially a subsistence carbohydrate diet.

AACo is committed to being a part of this “dining boom”.

However, it is important that in order to maximize shareholder value the company must earn adequate returns on its assets.

In order to achieve acceptable returns on invested capital, AACo can no longer afford to merely be a primary producer, but must also touch as many parts of the supply chain as possible, including processing, value-adding and marketing, in order to capture available margin.

The current price disparity between global and domestic prices means the company can no longer sit back and simply supply to third parties who are afforded the opportunity to capture this available margin.

We must capture more of this available margin ourselves – the Darwin Abattoir being a key part of this strategy.

The pursuit of this strategy means the company requires new skill-sets to lead it into its next phase of growth and maturity.

David Farley, who had led the company for almost four years, left last month and the company is in the midst of a search for a new Chief Executive Officer.

We have so far received applications from – and identified - some very high-calibre candidates and we are confident in concluding the process soon. The candidate we are looking for will have skills in both marketing and processing, as well as experience in a larger corporate setting, running multiple divisions.

We are looking for someone who has a global mindset and an agri-business approach, not just a pure traditional agricultural approach.

I would like to thank David for his leadership in difficult times. David's skills were essential to see the company through its three-year turnaround, which was completed earlier this year.

Finally today, I would like to give you an important update on the status of the Darwin abattoir.

The abattoir is a critical component of the company's vertical integration strategy.

It will be a state-of-the-art facility, opening up new channels to international markets as well as reducing freight costs currently incurred by moving cattle from the north to eastern Australian abattoirs.

The completion of this facility should go some way to insulating AACo from volatility in domestic and live export markets by accessing generally higher and more stable global beef prices.

It will also allow the company to manage the supply chain so that we can market our beef to maximum advantage, including maximizing the value of our genetics.

This morning, the AACo board gave its approval for the final phase of the abattoir's construction.

As I have previously outlined, the board, while fully committed to the concept of the abattoir, has taken a considered, staged and fiscally responsible approach to approvals for the construction.

Since the stage one civil works were completed earlier this year, a significant amount of time has been spent finalizing design and specifications of the plant.

This morning's approval means this work can now be moved on site and construction completed.

The company now anticipates the plant will be fully operational during the second half of the 2014 calendar year, with a final estimated total capital cost of \$91 million.

Once fully operational the abattoir is forecast to deliver a return on capital employed in excess of the company's pre-tax cost of capital.

In April, AACo announced that it intended to fund construction from its own balance sheet. The company held discussions with several potential investment partners, but decided in the end that none met the criteria the board had set of being able to bring strategic benefits to the project rather than simply financing or off-take agreements.

Earlier this month the board informed shareholders that it was currently considering options available to strengthen the balance sheet, which could include a capital raising.

This is to ensure the balance sheet is structured appropriately to execute the company's strategy, including construction of the Darwin Abattoir.

The board has yet to make a final decision on the structure of any potential share offer, including the size or type of any raising.

The board will continue to keep shareholders informed of progress on this matter as appropriate.

Finally, I'd like to give heartfelt thanks to all our employees. The weather and the markets have made it a very challenging time for everyone in

the cattle industry and our people are working extremely hard to meet those challenges.

I will now hand over to our chief financial officer and interim chief executive officer Craig White, for an update on operations since 31 March 2013.