



CHAIRMAN'S ADDRESS
Annual General Meeting
30 October 2013

The financial year ended 30 June 2013 was a successful one for Lindsay Australia. The Group earned a net profit after tax of \$7.18 million for the year. This was a significant increase on the previous year where a profit of \$25,000 was earned. During the previous financial year bad debts of \$5.7 million (after tax \$4 million) were provided for or written off.

Basic earnings per share for the year were 3.3 cents.

Revenue for the year increased 8.9% to \$283 million compared with the previous year revenue of \$260 million.

Dividends paid or provided for the year were 1.9 cents per share.

The Group has maintained its focus on its two principal market segments, the transport of refrigerated produce and processed food, and the sale of rural merchandise.

Transport

Although the trading environment faced by the Transport Division during the 2013 financial year was challenging, the Division achieved strong growth in both sales and profitability. Pricing pressures from competitors and some of our customers continues requiring constant focus on both margin and our cost base.

Highlights for the year were:

- revenue for Transport including internal revenue was \$201 million compared with \$178 million last year, this is an increase of 13%,
- revenue from our ten largest customers increased by approximately 9% with these customers contributing 43% of Transport revenues,
- this increased revenue was in part contributed by a 20% increased use of subcontractors,
- strategic alliances with a number of subcontractors were maintained during the year, and
- freight carried by subcontractors was approximately 27% of total revenue compared with 25% last year

Driving the increase in revenue was:

- increased transport activity out of Brisbane, Sydney and Adelaide;
- growth out of key produce areas, other than the Bundaberg and Gatton areas which experienced a decline in revenue;
- additional revenue from taking over work from another carrier who exited the industry; and
- strong growth out of North Queensland with revenue up by 10%.

In October 2012 the Group gained the freight task of a number of customers from Charter Refrigerated Transport who ceased business. Charter's customers were mainly horticultural producers in NSW and seafood producers from Cairns to the mid-coast of New South Wales. This has provided diversification for the Transport Division as the Group had not previously carried large volumes of seafood.

Transport's divisional contribution was \$20.5 million compared with \$13.7 million earned last year. This is a \$6.8 million increase. Included in the result are retrospective fuel tax credits of \$3.6 million. Without these Transport's Divisional performance would have increased by 23% on the prior year.

In the case of the Commissioner of Taxation and Linfox Australia Pty Ltd it was found that the Road User Charge did not apply to fuel used in refrigeration units. This allowed us to claim additional fuel tax credits on fuel used in refrigeration units since 1st July 2006. An additional claim has been made in the first quarter of the 2014 financial year resulting in an additional fuel tax credit refund of \$1.08 million.

It is pleasing to report that Transport divisional performance increased by \$2.7 million in the seasonally low months of January to April. This is as a result of obtaining seafood customers as mentioned previously and obtaining additional produce customers who have freight requirements at this time.

In August 2013 a depot was opened in Mackay North Queensland to further broaden the Division's geographic reach and to facilitate further growth in refrigerated seafood transport.

Fleet kilometres travelled during 2013 increased 3.2% to 52.2 million. Higher capacity utilisation and the flexibility provided by use of subcontractors have resulted in this increase in kilometres being lower than the increase achieved in revenue from company vehicles. The revenue per kilometre rate grew by approximately 7.4%. This is one of the key performance indicators used to measure capacity utilisation.

This increased capacity utilisation is a result of two underlying factors:

- the Group's continued investment in higher yielding B/Double trailer combinations; and
- the increase in the average load factor per vehicle movement.

Cost increases occurred in linehaul labour, administration and pickup and delivery drivers. A new enterprise agreement covering our linehaul and pickup and delivery drivers was approved by employees by vote in August 2013. The agreement is before Fair Work Australia for certification. This agreement if approved extends for three years from certification.

Vehicle repair and maintenance costs, including mechanical labour, increased by 13.4% as a result of increased kilometres travelled, higher mechanical labour costs and the ageing of our fleet.

During the 2013 financial year Transport experienced an unacceptably high accident rate resulting in increased insurance premiums, claims and excesses of approximately \$1.5 million above last year. Measures to reduce this rate are being addressed.

Additional in-vehicle tracking, monitoring and communication technologies are being trialled and are expected to be installed in vehicles soon. This will allow a significantly improved system for fatigue management monitoring.

Rural

The year was characterised by:

- revenue of \$84 million that was at a similar level to last year,
- in some product categories volume growth impacted by seasonal factors,
- sales in packaging falling by approximately 18% however this was offset by increased sales of industrial products and nutrients,
- packaging sales being particularly slow in the first quarter of the 2013 financial year as a result of customers buying additional cartons in June 2012 prior to price increases becoming effective in July 2012 (from the imposition of the carbon tax),
- carton sales reducing with the loss of sales to a major customer who the Group ceased trading with in 2012, and
- competition from imported cartons as a result of the high Australian dollar.

Sales for June this financial year were again strong being over 50% higher than the average monthly sales for the other 11 months of the financial year. Sales in Emerald again increased as trees further matured. All citrus trees in Emerald were destroyed as a result of citrus canker in 2004.

Rural earned a divisional contribution of \$3.5 million for 2013 compared with last year of \$3.7 million. The 4.5% decrease in divisional contribution was due to a slightly lower profit margin percentage. The overall reduction in Divisional profit of \$170,000 was impacted by the first quarter where the result was \$840,000 below the same period last year mostly due to reduced packaging sales.

The Rural division continues to provide excellent service to customers. Consistent with the provision of this service is increased agronomy services that we are providing to customers in specific areas. During the year Rural also entered into a number of distribution agreements with some key suppliers of rural products.

We have strong sales growth potential for the Rural division in North Queensland with the increasing emergence of this area as a major horticultural producer in Australia.

The success of our low cost start up model is continuing. During the year one outlet transitioned to a full store model. We currently have four outlets in this model and subject to identifying suitable premises one is expected to transition into full store operations in the 2014 financial year. We have now opened a low cost outlet in Mackay in a premises shared with Transport.

During the financial year part of the Victorian operations was restructured as the sales outlook was not strong in the short term as a result of the downturn in the food processing sector in this area. Four locations were consolidated into two outlets.

Outlook

The outlook for produce volumes in the 2014 year remains encouraging with a possible industry-wide capacity shortage in the refrigerated transport sector and further rationalisation with either operators downsizing or exiting this sector.

For the first quarter Transport revenue including internal revenue has increased approximately 24% on the September quarter last year. We don't anticipate that this high growth rate will continue for the rest of the year but are optimistic that monthly sales revenue will increase 10% on the prior month last year. Rural sales have increased approximately 8% on last year. Both Transport and Rural divisional profitability for the first quarter are ahead of the corresponding period last year.

Unaudited after tax profitability for the Group for the September 2013 quarter is also ahead of the previous corresponding quarter notwithstanding the reduction in the after tax and consultancy fees benefit from claiming retrospective fuel tax credits of \$1.34 million.

We would like to once again thank our dedicated staff for the successful year that we have had. No company can deliver the results we have achieved this year without the commitment and focus of our staff. We are proud of our history, especially as Lindsay Transport has achieved its 60th year milestone and Lindsay Rural its 30th year milestone.

Finally I would like to thank my fellow Directors for their continuing efforts and dedication to Lindsay Australia Limited.

Thankyou Ladies and Gentlemen