

SELECT HARVESTS 2013 AGM: Michael Iwaniw Speech

22 November 2013



SELECT HARVESTS

Introduction

Ladies and Gentlemen.

Welcome to the 2013 Annual General Meeting of Select Harvests Limited.

My name is Michael Iwaniw and as your Chairman, I will be conducting today's meeting. Thank you for taking the time to be here today.

In a moment I will deliver my address on behalf of the Board, and I will then ask Paul Thompson, our Managing Director, to provide an update and outline of how he sees the business moving forward, in the context of operational initiatives and strategic priorities. Following Paul's presentation, we will provide some time for questions before then moving on to the formal business of the meeting.

I would now like to introduce your Board members.

Accompanying me on stage are Fred Grimwade, Ross Herron, Michael Carroll and Paul Riordan and the managing Director of Select Harvests Paul Thompson. Next to Paul Thompson is our Chief Financial Officer and Company Secretary, Paul Chambers. I would also like to welcome Bart Oude-Vrielink from our lawyers, Minter Ellison and John O'Donoghue from PricewaterhouseCoopers, our auditors.

As this is my second Annual General Meeting as Chairman of Select Harvests I think it appropriate to reflect on the transformation that has occurred over the year past, and how this has confirmed to me what a great company Select Harvests is.

When I joined the Board of the Company, I came in with the impression that Select Harvests is a company with great potential and valuable assets in a compelling industry. These impressions have been more than confirmed.

At this meeting last year, we had just appointed Paul Thompson as our new CEO and Managing Director, and he had begun the realignment of the Executive Management team. We set ourselves a number of priorities in the year that followed and I am pleased to report that Paul and his team have either delivered or are on a pathway to deliver on many of these priorities.

- We have quality assets in our mature or near mature almond orchards and a state of the art almond hulling and cracking processing facility in Northern Victoria. We have put in place practices which optimise the financial returns from these quality assets ;
- Our focus has been to improve orchard management practices, yield outcomes and crop value;
- We have formed a horticulture sub - committee of the Board to work more closely with our executive team, and the orchard managers,

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on our orchard management plans and proposals, including the tree replanting strategy for the older orchards within our portfolio;

- Our Food Division is underperforming. Our base business has strong brands and a growing industrial business. Now with the new executive in place, plans have been developed to improve the performance of this division;
- We have undertaken a more focused strategy to improve the future returns in our Food Division;
- We have implemented a more formalised approach towards strategy formulation, risk management, and a sharper focus on execution and performance measurement;
- We have improved our stakeholder engagement and communications, including with our customers, employees and shareholders;
- Pleasingly we now have a noticeably improved business culture, in which working together as teams, and the sharing of knowledge, is now commonplace.

I am pleased to report that the Company has reinforced its positions as a leading Australian and International player in the almond industry, and is testament to the solid structure and highly capable management team now in place.

Our financial performance exceeded our expectations in the 2013 financial year, showing that the Company has successfully transitioned its business model from that of being primarily a manager of almond orchards owned by third party growers, to an owner/controller of its own portfolio of almond orchard assets, integrated to a food business, exposed fully to the positive fundamentals of the global almond market, and with good presence in the broader nut and healthy eating categories.

The Company now has direct control/ownership of over 10,000 acres (4,000 hectares) of almond orchards, meaning that approximately 90% of its income stream is now derived from these orchards. Only a few years ago, the income stream was primarily derived from fee income for services provided to others.

As part of our growth strategy the Company, as in the previous two years, was able to deliver on a number of accretive value based acquisitions in 2013, with the acquisition of 1,284 acres (520 hectares) of high quality almond orchards right in the heart of our Northern Victorian operations. These orchards have performed exceptionally well and will pay back on our investment in just two years.

We have continued to evaluate earnings accretive acquisitions where it makes financial sense to do so. On this front, we are pleased to have announced earlier this week a brand new addition to our almond orchard portfolio in South Australia. Paul Thompson will report on this in his presentation.

The increased exposure to the positive fundamentals of the almond value chain is seen in the strong underlying result delivered in 2013, with underlying NPAT of \$ 22.9 million, which compares to underlying NPAT of \$9.5 million in FY12. This re

basing of the earnings profile of the Company, which comes from the productive capacity of our orchards, is seen as a sustainable source of cash generation for many years to come. This earnings growth is accompanied by a prudent investment in capital expenditures and an efficient use of working capital, meaning the Company now has the balance sheet capacity to support both organic and acquisition based growth initiatives.

In August 2013 the Company announced the refinancing of its banking facilities which supports our new strategy.

Our gearing at 30 June was 49.7%. A large component of the receipts from the sale of the 2013 almond crop have been received since then, and we are trending well towards our target gearing level of below 40%.

A brief word on dividends. Our total dividend for 2013 was 12 cents per share, which compares to 8 cents in 2012. Our philosophy remains that of maintaining a prudent approach towards capital management, and future dividend payouts which balance the combined objectives of distributing a share of the stronger projected operating cash flows to our shareholders, and funding the identified accretive growth opportunities in the business.

I would now like to spend some time talking about the Boards decision to abandon our plans to develop almond orchards in Western Australia. As was reported at the time of our 2013 half year results, we took the difficult decision to exit the Western Australia greenfield development resulting in a write down of our assets by a further \$39.9 million (\$27.9 million after tax), meaning the assets are now written down to a value of \$5 million. This decision was taken after an exhaustive review undertaken by internal and external specialists, and overseen by a special committee of the Board.

Whilst at the time Select Harvests entered into this venture, the strategic rationale to do so was sound, the combined impact of many factors, including horticultural, economic and project implementation challenges, meant that our ability to generate future shareholder value from almonds in Western Australia was not seen as viable. Whilst extremely disappointing, the decision to exit the project was a clear one and in the best interests of the Company and its shareholders.

Our management team is currently working through a number of opportunities to identify and create value from our assets in the West, where our investment to date includes over 5,000 hectares of land, quality irrigation infrastructure, and rights to 22 Giga Litres of water entitlements. Our approach to this will be a patient one as we aim to maximise as much value from the assets from here on in.

During the year the Board and Executive undertook a formal strategic review of the business to set the pathway to growth into the future:

The backdrop to this review is that the global market dynamics of almonds and nuts remain very strong, underpinned by the combination of constrained global supply, but high demand, and the ever increasing growth of consumers in the developing markets (notably India and China), and continued growth in developed

economies as per capita consumption of almonds increases in line with healthier eating trends in general.

Through the strategy development process, 7 platforms were identified which are underpinned by some 40 projects aligned to implementing the strategy. The platforms are:

1. Increase our control over the critical mass of almonds needed to enable our supply to meet growing global demand;
2. Continue to improve crop yield and value by perfecting our on farm and farm to factory processes;
3. Implement best in class supply chain processes, and manufacturing footprint;
4. Turn around the Packaged Food Division;
5. Invest in our Industrial and Trading Division;
6. Improve our business systems and processes;
7. Engage with our people and stakeholders.

The Audit and Risk Committee lead by Ross Herron and the Remuneration Committee lead by Michael Carroll have undertaken an extensive review of our risk management framework and remuneration strategies and policies. These changes have integrated into our management process. They are now included in both the strategic planning process and the day to day management of our business.

Paul Thompson will talk more on what we are doing in relation to the strategy and implementation priorities.

Over the past year the Company has placed a significant amount of emphasis on improving the way in which we communicate with shareholders, employees, customers and suppliers. This higher level of engagement has clearly strengthened the overall understanding of our business, and the level of transparency and trust we seek from those engagements. We will continue to focus on this aspect, including upgrades to our Company website.

Our Company is also focused on and is more open towards learnings across and from within our industry, and we have invested in a range of study initiatives to enable us to benchmark our operations and practices against some of the world's best almond growers, processors and marketers.

In conclusion, and on behalf of our Board, it is our belief that Select Harvests has a lot to be optimistic about. I would like to thank the Board, Management and employees for their dedication, focus and support in enabling the transition and turnaround of the business, which follows some tough and challenging years in which the Australian Almond industry has undergone some significant structural change.

We now plan to build on the strong result achieved in 2013 and continue our strategic management practices so the Company achieves even greater outcomes for our shareholders in future years.

I would now like to like hand over to Paul Thompson, our Managing Director, for an update on the business and strategic priorities.

Thank you.