AUSTRALIAN AGRICULTURAL COMPANY LIMITED

ASX RELEASE

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Strategy being implemented

- **Operating cash flow improvement of $21.2 million to $18.5 million**
- **Branded Beef gross margin improved 329 per cent to $17.0 million with focus on higher-value customers**
- **In early response to the drought, a sales program reduced the branded herd to 467k head at 31 March 2014 and eased pressure on pastoral operations**
- **Statutory EBITDA improved by $11.3 million to a loss of $19.9 million**
- **Northern Beef Processing Facility on schedule for September commissioning**
- **Strengthened balance sheet following $299 million capital raising completed in October 2013**

Australia's largest vertically integrated cattle and beef producer, the Australian Agricultural Company Limited (AACo), today announced a statutory net loss after tax of $39.9 million for the year ended 31 March 2014 following poor seasonal conditions.

AACo Managing Director, Jason Strong, said the company's strategy to transform itself from a production-led pastoral company to a vertically integrated and customer-responsive producer, processor and marketer is being successfully implemented.

"AACo's pastoral operations continued to be affected by the ongoing drought in northern Australia, but the increased focus on driving revenue through selling premium beef to higher-value customers is beginning to produce excellent results," he said.

"The Branded Beef division posted a 329 per cent increase in gross profit to $17.0 million from $4.0 million in the prior corresponding period.

"It demonstrates that the company's strategy to improve the quantity and quality of earnings, by reducing its exposure to volatile domestic cattle markets, is the correct one.

"The company's Northern Beef Processing Facility, which is due to be commissioned in September this calendar year, will also play a crucial role in transforming the company to a profitable business with less volatility."

Mr Strong said the company's drought management plan and early response to the dry conditions had helped mitigate the adverse effects of these conditions on the result.

"AACo acted decisively to implement a sales program and reduce its herd by approximately 86,000 head, which helped reduce the pressure on its pastoral operations," he said.

"While kilograms produced in the pastoral division were down by 28.4 per cent, the company's revenue was down only 6.5 per cent. Gross margin improved by 2.5 per cent due to a focus on selling more branded, premium beef and managing expenses in a difficult operating environment."

In line with strategy, this improvement in gross margin was supported by a 67 per cent increase (approximately 25,000 head) in internal cattle transfers to Branded Beef to be sold as boxed beef.

Group Financial Results

	12 months to 31 Mar 2014	12 months to 31 Mar 2013
Kilograms of boxed beef sold	20.5m	18.7m
Kilograms produced (liveweight)	66.2m	92.1m
Revenue		
Boxed beef	$188.2m	$154.8m
Finished and store cattle	$120.5m	$164.2m
Farming	$8.1m	$18.5m
Total revenue	$316.8m	$337.5m
Gross operating margin	$54.0m	$52.7m
Other revenue and income	$9.0m	$5.3m
Operating expenses	$(82.9m)	$(89.2m)
EBITDA[1]	$(19.9m)	$(31.2m)
EBIT[1]	$(34.7m)	$(49.2m)
NPAT	$(39.9m)	($49.8m)
Operating cash flow	$18.5m	$(2.7m)

Note:
1. EBITDA represents net profit + tax expense + finance costs (EBIT) + depreciation, amortisation and impairment and are non-IFRS financial information which have been reviewed by the company's auditors.

Mr Strong said while the overall statutory EBITDA result was a loss of $19.9 million, which was an improvement of $11.3 million compared to the prior corresponding period, the group achieved an improvement in net operating cash flows to $18.5 million, up $21.2 million from negative net operating cash flows in the prior corresponding period of $(2.7) million.

"This result was achieved in difficult operating conditions and with net cattle sales and purchases being largely in-line with budget," he said.

"The company's focus on reducing costs across the business resulted in a $6.3 million decrease in operating expenses to $82.9 million.

"An increase in live export import permits to Indonesia and greater competition from other markets late last calendar year resulted in increased export volumes at improved prices in the latter part of the financial year."

The company's result was also adversely affected by a decrease in the valuation of AACo's property portfolio by $37.1 million. This has been reflected through a decrease in the asset revaluation reserve of $33.5 million and a decrease in fair value in the income statement of $3.6 million.

Following the successful $299 million capital raising completed in October 2013, the company's balance sheet has been strengthened, with gearing reducing to 23.2 per cent at 31 March 2014 (41.0 per cent at 31 March 2013).

In March 2014, AACo entered into a new club financing facility of $400 million that expires on 30 June 2018. This new facility replaced the previous syndicated financing facility. The new facility was drawn down by $200 million as at 31 March 2014.

The company finished the financial year with net tangible assets of $1.40 per share, compared to $1.90 per share at 31 March 2013, reflecting the impact of the capital raising, company performance and the decrease in the valuation of AACo's property portfolio.

Seasonal Conditions

AACo's northern properties continued to endure dry conditions for much of the financial year. Better rainfall was recorded by the end of the final quarter.

The drier conditions saw increased cattle sales activity and gave rise to increased feed, transport and other costs.

Branded Beef Operations

AACo's Branded Beef division sold 20.5 million kgs of beef during the year, an increase on the 18.7 million kgs sold in the prior corresponding period.

Revenue improved by 21.6 per cent to $188.2 million and gross margin improved by 329 per cent to $17.0 million, driven by higher beef sell prices, lower cost of sales and a more favourable AUD/USD exchange rate.

This reflects the company's strategy to increase the volume of premium-quality Wagyu beef sold to higher-value customers.

	Wagyu (mil kg)	Av. Wagyu $/kg	Shortfed/Other (mil kg)	Av. Shortfed/Other $/kg
FY14	10.2	11.71	10.3	6.74
FY13	8.8	10.25	9.9	6.59

Pastoral Operations

AACo managed its herd effectively during the dry conditions in northern Australia with an accelerated sales program.

<u>External cattle sales</u>

(head)	Grass Finished	Shortfed Grain Finished	Wagyu	Store Cattle	Live Export	Total External Sales	$/head
FY14	43,929	10,774	4,892	63,706	77,816	**201,117**	**$600**
FY13	56,918	11,717	6,142	69,514	78,478	**222,769**	**$737**

Internal cattle transfers

(head)	Grass Finished	Shortfed Grain Finished	Wagyu	Total Internal Transfers	$/head
FY14	11,357	14,788	36,379	**62,524**	**$1,739**
FY13	5	7,757	29,709	**37,471**	**$2,021**

There was a 67 per cent increase (approximately 25,000 head) in internal cattle transfers to Branded Beef to be sold as boxed beef in line with strategy.

The dry conditions necessitated de-stocking across the industry, forcing prices lower than previous years. AACo delivered 263,641 head of cattle for either external sale or internal transfer during the financial year, compared to 260,240 head in the prior corresponding period.

Cattle purchases were reduced to 42,593 head for the year (87,996 head for the prior corresponding period) with the bulk of the cattle purchased to support feedlot operations.

Farming Operations

The financial year ended 31 March 2014 includes only the 2013/14 season cotton harvest at each of Goonoo and Lynora Downs farms and the 2012/13 season harvest at Woodbine Farm. The prior corresponding period recognised two cotton harvests each at Goonoo and Lynora (2011/12 and 2012/13 seasons), following a late 2011/12 harvest due to flooding.

Northern Beef Processing Facility Update

The Northern Beef Processing Facility is expected to be commissioned on schedule in September this year.

Dividend

The board has not declared a dividend. The company is committed to the reinstatement of dividends and has previously foreshadowed that on a return to sustainable and significant positive operational cashflows the directors will review dividend policy and payments.

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