



Australian Agricultural Company Limited
ABN 15 010 892 270

AACO FY14 ANNUAL GENERAL MEETING
CHAIRMAN'S ADDRESS

ASX Announcement No. 19/2014

17 July 2014

Attached is the Chairman's Address for the FY14 Annual General Meeting of the Australian Agricultural Company Limited ('AACo') to be held today.

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2014 AGM

17 July 2014

Chairman's address

Good morning ladies and gentlemen,

The past year has been one of significant change and achievement for your company.

AACo has embarked on a major transition from a purely pastoral company towards becoming a globally focused, vertically integrated supplier of the highest-quality Australian beef.

Today I will give you an overview of the past financial year and our progress towards that goal.

I will then invite our Managing Director, Jason Strong, to provide you with some more detail on the evolution of the company's strategy and an update on operational conditions.

I would like to start with two of the most significant events of the last financial year – the ongoing construction of the Northern Beef Processing Facility, “the Darwin Facility”, and the improvement in the company's capital base following last year's capital raising.

It was less than 12 months ago – at last year's August Annual General Meeting– that the board formally approved the construction of the \$91 million Darwin Facility.

That project is on schedule to be commissioned in two months' time.

This project represents a key milestone in AACo's ongoing journey towards sustainable, more stable profit generation.

Just after last year's AGM, we announced a \$300 million capital raising, which completed last October.

That capital raising was well supported by both our retail and institutional shareholders, and I thank you for that confidence in your company's strategy.

It secured funding for the Darwin Facility, as well as more financial flexibility to execute our strategy by reducing gearing from 41 per cent at March 31 last year to 23.2 per cent at March 31 this year.

In the past year the company also divested some properties and purchased others that are better aligned to our supply chain with the Darwin Facility.

FY14 result

As you will be aware, this was the first full year of the company's new financial year calendar, with a balance date of March 31 to better reflect AACo's business cycle.

The past financial year provided a difficult operating environment for our pastoral activities, with northern Australia experiencing one of the worst droughts in decades. This drought contributed to the company posting a full-year statutory loss after tax of \$39.9million.

Under AACo's drought management plan, the company moved decisively to reduce its branded herd of 553,000 by 87,000 and mitigate the worst effects of the adverse conditions. Importantly, the core breeding herd – the 'engine' of the pastoral business – was maintained.

The drought and subsequent over-supply of cattle on the east coast was a key contributor to low domestic cattle prices, especially in the first half, with cattle sales revenue down by \$43.7 million compared to prior corresponding period.

Drought conditions also contributed to a \$37.1 million decrease in the valuation of AACo's property portfolio. This was reflected through a

decrease in the asset revaluation reserve of \$33.5 million and a negative impact on the income statement of \$3.6 million.

Notwithstanding these challenges, the company's beef sales increased by 22% to \$188 million and now account for over half of the company's total revenue.

This result was encouraging and supports the company's strategic focus on increasing the proportion of higher-margin beef sales.

It is worth mentioning that in the past month, Darling Downs Wagyu won the gold medal in the Branded Beef Competition at the Royal Brisbane Exhibition. This builds on the gold medals won by our Master Kobe and Kobe Cuisine brands at the Australian Wagyu Association's Branded Beef Awards late last year.

Importantly, the company has significantly improved operating cash flow, with a \$21.2 million turnaround from negative net operating cash flows of \$2.7 million to a positive \$18.5 million. This is a work in progress but a great start under difficult conditions.

While partly due to the reduction in the herd size, this result was achieved in very difficult operating conditions and with net cattle sales and purchases being largely in line with budget.

The company has had a focus on reducing costs across the entire business, which resulted in a \$6.3 million decrease in operating expenses to \$82.9 million.

While the Board did not declare a dividend for the financial year, we remain committed to the reinstatement of dividends and committed to a return to sustainable and material positive operational cashflows. Directors will review the dividend policy and payments as appropriate.

Market conditions

I would like to touch on some changes to market conditions.

AACo's strategy is to gain exposure to the ongoing mega-trend of continuing income growth in Asia and the associated rise in demand for premium food.

The Federal Government's recently announced free trade agreements with Japan and the Republic of Korea are welcome and will benefit the Australian beef industry over time.

Both Japan and South Korea are long-term and high-value consumers of our beef.

The Korea-Australia Free Trade Agreement, signed in February this year, will help protect Australia's beef sector from increased competition from the United States.

While the United States will have a slight tariff advantage over Australian beef due to signing its own FTA in 2012, the KAFTA will ensure that Australian beef prices do not fall further behind.

This is significant for AACo, as Korea is AACo's largest export beef market, accounting for more than 20 per cent of our annual beef sales. More than half of this beef is premium Wagyu, such as the company's signature Kobe Cuisine brand.

AACo has deep and strong relationships with its Korean customers and last year celebrated its 10th anniversary of supplying Darling Downs Wagyu to Korea's EMart stores.

These relationships will become increasingly important as the company seeks to grow exports of these premium beef brands to countries such as Korea, where the end user not only demands high-quality beef, but has the ability and willingness to pay a price premium for it.

The Japan-Australia Economic Partnership Agreement (JAEPA) was announced in April this year, after the company's balance date.

While this agreement is not as comprehensive as Korea's, it is still significant, as it represents the first time in nearly 40 years that Japan has entered into such an agreement. The agreement introduces an immediate stimulus to beef exports by dropping tariffs in the first year by 8 percent on frozen beef and 6 per cent on chilled beef.

It also includes a 'most-favoured nation' clause that ensures Australia will not be disadvantaged should a competitor achieve a better trade agreement.

Elsewhere, Indonesia remains an important customer for our live cattle exports.

In January, Indonesia introduced new regulations for the export of live cattle from Australia, which should help to provide more certainty to the trade.

These regulations removed the quota system and replaced it with a reference price system, where cattle are imported based on importer demand and wet-market beef prices.

AACo is encouraged by the improvement in live export numbers and prices over the course of FY14.

Board changes

There have been some recent Board changes at AACo that occurred since the Notice of Meeting was sent to shareholders. Dr Mohd Emir and his alternate director, Mr Denys Munang, resigned from the Board on July 1. On behalf of the Board and all shareholders I want to thank Dr Emir and Mr Munang for their service to AACo.

As a result of the changes to the Board make-up, AACo now has a majority of independent directors.

Management team

In January this year, the Board appointed Jason Strong as Managing Director.

Jason was previously the company's General Manager for Marketing and oversaw the strong improvement in the performance of the Branded Beef Group.

He has been a significant contributor to the company's strategy to refocus on high-margin branded beef products.

Jason was the stand-out candidate from a very competitive process and the Board is confident his unique skill set in beef processing and marketing will help drive profitability and improve shareholder returns.

He has been intimately involved in driving the company's strategy, which I will shortly invite him to outline in more detail, along with an update on operating conditions in the first quarter.

However before doing so, I want to thank the Executive team and all the staff of AACo for their ongoing hard work and commitment to the company's strategy throughout 2013 and 2014.

Finally, I would like to acknowledge the extraordinary contribution of my fellow directors. It is a small Board with a heavy workload. They are a strong and dedicated team and I thank them for their support.

Donald McGauchie
Chairman
17 July 2014