AUSTRALIAN AGRICULTURAL COMPANY LIMITED

ANNUAL REPORT 2011

ABOUT US

Australia Agricultural Company Limited ACN 010 892 270 (ASX:AAC) (AAco) is Australia's largest beef cattle company, with more than 660,000 head of cattle. AAco operates across 23 cattle stations, seven feedlots and three farms over more than 7.2 million hectares of land in Queensland and the Northern Territory.

AAco is committed to providing quality Australian beef and cattle, as well as crops and related agricultural products to the domestic and global market. Constant innovation and evolution of the Company has ensured it has stayed at the forefront of Australian agriculture for more than 180 years.

AAco is a leader in genetics and uses the latest technology to maintain world's best practice operating systems across the business.

AAco remains focused on the environment and the sustainability and quality of its operations through company-wide accreditation with the Livestock Production Assurance QA, European Union Cattle Accreditation Scheme, National Feedlot Accreditation Scheme and Meat Standards Australia quality assurance programs.

COMPANY INFORMATION

Registered Office
Principal Place of Business
Level 1, 299 Coronation Drive
Milton QLD 4064
Ph: (07) 3368 4400
Fax: (07) 3368 4401
www.aaco.com.au

Share Registry
Link Market Services Limited
330 Queen Street
Brisbane QLD 4000
Ph: 1300 554 474
www.linkmarketservices.com.au

AAco shares are quoted on the Australian Securities Exchange under listing Code AAC.

Solicitors
Mallesons Stephen Jacques
Level 30, Waterfront Place
1 Eagle Street
Brisbane QLD 4000

Bankers
National Australia Bank
Ground Level
345 George Street
Sydney NSW 2000

ANZ
16/324 Queen Street
Brisbane QLD 4000

Commonwealth Bank
Specialised Agribusiness Solutions
Business and Private Banking
143-145 Margaret Street
Toowoomba QLD 4350

Auditors
Ernst & Young
Level 5, Waterfront Place
1 Eagle Street
Brisbane QLD 4000

CONTENTS

01 Chairman's letter 2

02 Managing Director's report 4

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at 10.00am on Friday 16 March 2012 in the Grand Ballroom, Marriott Hotel, 515 Queen Street Brisbane.

01 CHAIRMAN'S LETTER

DEAR SHAREHOLDERS,

The Board of Directors is pleased to present to you the Annual Report for 2011. The year under review marked a significant period for your Company as our business transformation gathered pace and delivered a second consecutive year of profit.

The past financial year's solid financial result reflects how the Company has positioned itself to take advantage of favourable seasonal conditions and rising global demand for beef, heralding a new era of profitability and growth for AAco. This result was achieved despite many external challenges faced during the period under review including floods, the live export suspension to Indonesia, the high Australian dollar and ongoing global economic uncertainty.

Notwithstanding these challenges, as shareholders you have demonstrated your support for the Company by participation in capital raisings totalling $65.5 million (after issue costs) during the past financial year. Funds raised are being applied to additional cattle purchases, reducing debt and providing funding to implement other strategic initiatives, including the proposed northern meat processing facility.

OPERATING ENVIRONMENT

While the January 2011 floods caused limited damage and losses for our Central Queensland properties, the upside to such major weather events has been the excellent seasonal conditions across most of the Company's properties, producing plentiful pasture and nutrition for our growing herd.

The Federal Government's temporary suspension of the live cattle trade to Indonesia in early June 2011, had a significant impact on our operating environment. AAco responded by diverting cattle to other production and marketing channels, which assisted in mitigating some of the financial impacts on the Company. The live cattle suspension impacted the June 2011 result by $8.2 million (loss) reflecting the then estimated market value loss on the affected herd.

Since trade resumed, the market value of cattle in the areas affected by the suspension has improved. Notwithstanding, the Group suffered loss on cattle delivered or contracted during this period of the suspension. Losses were also sustained from cattle falling out of specification and having to be delivered to other markets. These revenue losses coupled with increased freight, logistical and other additional costs, as a consequence of the suspension, give rise to estimated total direct losses of $5.0 - $8.0 million. The total consequential loss assessment is still ongoing. AAco continues to work closely with government and our supply chain partners in Indonesia to ensure compliance with the new live export regime.

CARBON TAX

Another significant change to our operating environment during the year under review has come with the passage of the Clean Energy Future legislative package including the Carbon Tax.

Agriculture produces around 16% of Australia's direct emissions. These emissions are initially exempt from the Carbon Tax. Despite this, AAco will face significant cost pressures along our supply chain, particularly in relation to carbon emitted during processing at abattoirs, where the additional cost will be passed back to producers and when the freight exemption expires in 2015. However, management is investigating opportunities for various carbon abatement and storage initiatives to mitigate the impact of these costs.

FOREIGN INVESTMENT

This year has seen intense scrutiny of the role and level of foreign investment in Australian agriculture. AAco provided a submission and appeared before a Federal Parliamentary inquiry to highlight the importance of foreign investment both directly in AAco and the broader agribusiness sector.

AAco is principally foreign owned. Foreign investment is an essential constant in our past, our present and our future. The best way to ensure food security is to increase agricultural output through increased investment from foreign and Australian capital sources. Australia must ensure it has a regulatory regime which is unambiguous, transparent and conducive to such investment.

BUSINESS MODEL ON TRACK

AAco's primary asset and source of value to the Company remains the size and unique nature of its agricultural land holdings, quality and productivity of its cattle herd, and further strategic investments have been made in this area during the period under review.

During the past 12 months, AAco entered into several agistment agreements in the Northern Territory and Queensland rather than purchase or lease land as part of its land use strategy. This approach maximises the immediate return on the Company's working capital through weight gain and calf production.

AAco also made the decision to sell the Meteor Downs property for $21.6 million, which is 37.6% in excess of book value, during the period under review. The Board will continue to evaluate individual assets as part of a process to rebalance its property holdings in line with its business strategy.

VERTICAL INTEGRATION

During the past year, the Company took further steps to realise other opportunities and boarden its core competencies as an integrated beef producer and processor, announcing feasibility plans for a state-of-the-art meat processing facility near Darwin in the Northern Territory. The facility will not only provide a valuable springboard for the Company to export manufactured meat, hides and other products to the fast growing Asian region, but will also create hundreds of new jobs and economic activity for northern Australia.

AAco is seeking Australian and Northern Territory Government investment and support in the form of upgrades to public infrastructure. Subject to government approvals and infrastructure funding being granted, the Board will be in a position during 2012 to consider capital allocation and final endorsement for the project to proceed.

INDUSTRY REPRESENTATION

During the year, AAco has continued to engage with industry regarding improvements to the governance structure and representation for producers through the Cattle Council of Australia and Meat and Livestock Australia. Through its statutory levies and funding, AAco is the largest producer contributor in these bodies, and we remain committed to contributing to the debate for change throughout the coming months.

GLOBAL PROTEIN MARKET

Looking externally, global demand for protein remains buoyant and continues to drive historic price increases. Growing populations and incomes across developing countries, including in Asian markets, has prompted a shift to higher protein diets and forecasts for an overall increase in beef consumption over the coming decade.

AAco's growing and mixed composition herd and ability to supply a diverse range of market segments, from live export to boxed beef, including high value Wagyu prime cuts to manufactured meat, positions AAco to respond quickly to take advantage of any pricing increases.

BOARD CHANGES

The year under review has been one of renewal for the Board of AAco. During the past financial year we have seen the retirement of two founding directors, Nick Burton Taylor and Chris Roberts, who have each served 10 years on the Board since listing in 2001. I wish to sincerely thank Nick and Chris for their valued contributions.

We also look forward to the skills and experience of three new non-executive Directors in Tom Keene, Stuart Black and David Crombie. All three new Directors bring a great depth of knowledge about the rural sector and Corporate Governance.

DIVIDEND

The Board has determined that no dividend will be declared for the 2011 financial year. While we have been pleased with the continued progress against our strategic plan, it is critical that capital is deployed over the next 12 months to ensure the long-term sustainability of the business.

Over the coming period, the Board will maintain its focus on the importance of increasing shareholder returns.

CLOSING

AAco's longevity reflects the Company's resilience and capability. 2011 has demonstrated that our business is able to successfully face a wide range of external pressures and challenges while delivering a profitable outcome for shareholders.

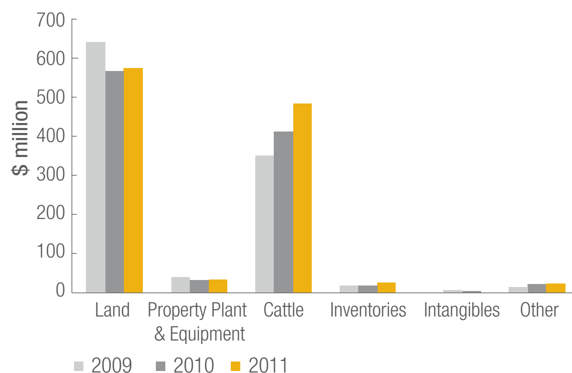
This success reflects the ongoing innovations overseen by management, ensuring AAco remains flexible and responsive to economic, social, environmental, regulatory and other challenges and opportunities.

The Directors revalued those properties based on values from an external valuer during the year. The Board remains focused on lifting return on assets employed and having the value of the groups' unique assets reflected in the share price.

In closing, I would like to thank David Farley and his team for their outstanding contribution during the year.

AAco is well positioned to achieve profit growth and build value for our shareholders.

Donald McGauchie
Chairman



02 MANAGING DIRECTOR'S REPORT

Your Company achieved a successful financial performance in 2011 as the turnaround strategy introduced two years ago gathered momentum through the implementation of further business improvements aimed at transforming AAco from a pastoral company to an integrated beef producer, processor and marketer.

AAco made strong progress in relation to our strategy during the period under review, with an increased focus on cattle trading, better asset utilisation, enhanced vertical integration and improvements to the herd, which have been key elements of the turnaround.

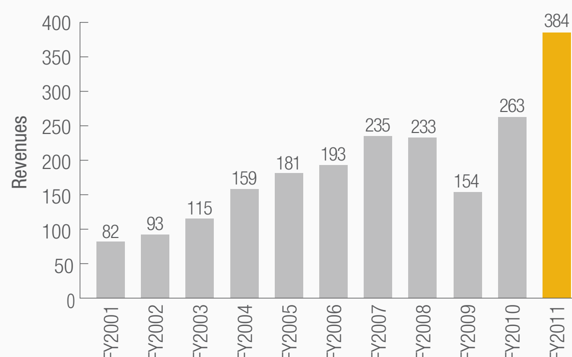
Operationally, 2011 was an extremely productive year for your Company, despite the challenges presented by summer floods and changes to government policy in relation to live cattle exports to Indonesia.

Increased pasture growth as a result of excellent seasonal conditions coupled with stronger global beef prices have contributed to our focus on increasing herd levels and weight gain during the period under review. The current seasonal conditions would indicate that there is six to eight months grassload across our properties.

AAco's strategic approach during 2011 delivered positive results across our operational metrics including: total kilograms produced of 80,688, 870 kilograms, 156,282 calves branded to 31 December 2011 and acquisitions of 177,516 head of cattle by the pastoral group, with property divestments of $21.6 million.

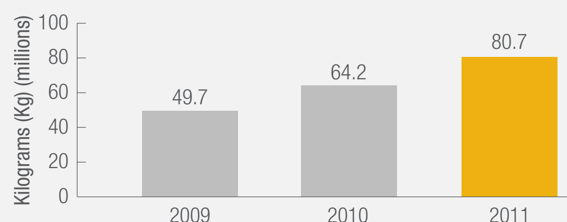
By growing the herd and maximising weight gain during 2011, your Company is now in a strong position to capitalise on the current global beef shortage and ascending cattle and beef prices, as we continue our transformation of AAco into an integrated beef producer, processor and marketer.

10 Year Revenues



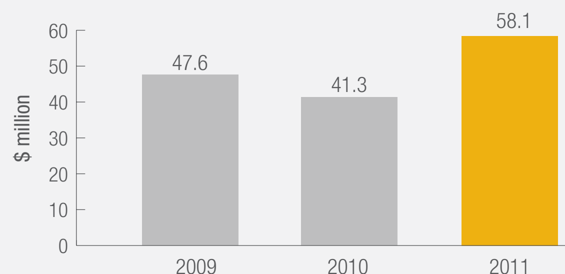
FINANCIAL HIGHLIGHTS

AAco's financial performance for the year was driven by strong revenue growth. The Company's cattle and farming operational areas were particularly strong performers achieving a revenue growth of 47% and 333% respectively. Kilograms produced increased by 26% from 64.2 million kilograms to 80.7 million kilograms.



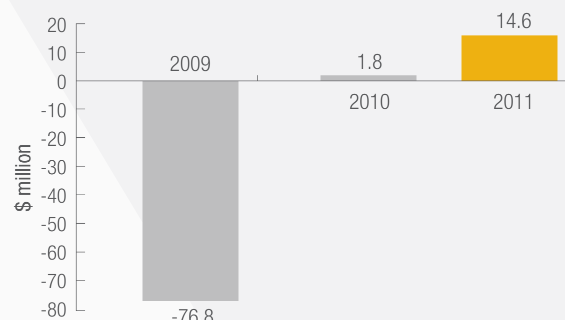
As a result of these initiatives, AAco achieved EBITDA of $58.1 million representing a 43% increase on the previous year.

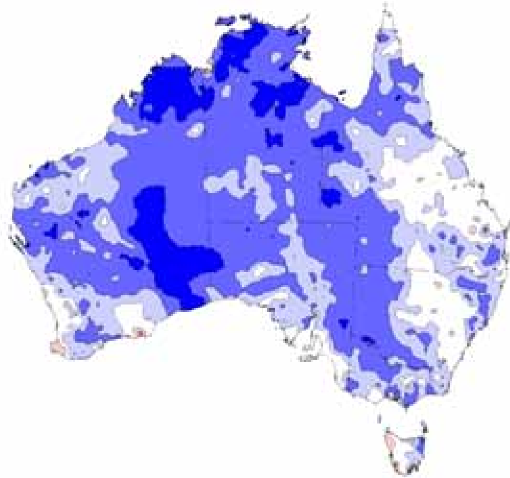
EBITDA



Net Profit Before Tax (NPBT) result of $14.6 million included one-off impairment costs plus operating losses totalling $8.4 million. These primarily related to attrition costs and the closure of the loss-making Chefs Partner business.

NPBT



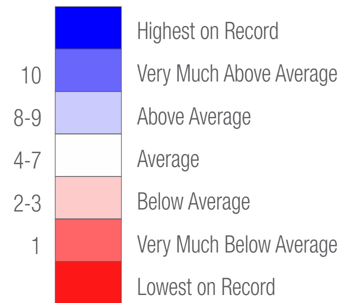


Australian Rainfall Deciles

1 January to 31 December 2011

Distribution based on Gridded Data. Product of the Natural Climate Centre.
www.bom.gov.au

Rainfall Decile Ranges



The cash outflow from operating activities in 2011 was $64.1 million (2010: $48.8 million cash outflow). The 2011 operating cash outflow includes:

- Increased cattle purchases including Tipperary - $31.7 million
- Chefs Partner closure and a decline in Beef Group margins - $9.3 million
- Shipping delays in December due to weather conditions with cash received in January - $12.2 million
- Increased finance costs - $8.8 million
- Other net outflows - $2.1 million.

Net tangible assets (NTA) per share were $2.15 as at 31 December 2011, compared to $2.23 as at 31 December 2010. This decline in NTA is predominantly attributable to the dilution caused by the successful capital raising conducted during the period.

OPERATIONAL HIGHLIGHTS

Leveraging favourable global and domestic conditions

Proteins including beef are currently experiencing strong prices due to the alignment of several global and domestic factors.

Increasing world population growth, combined with declining herd numbers and increased protein demand, has created significant opportunities for AAco.

A drought in the US is presently driving aggressive cattle slaughter rates on an already-depleted herd. As a result, US beef production is expected to ramp up in early 2012, before rapidly declining later in the current year. Production is expected to remain low until at least 2014.

For Australian cattle producers such as AAco, a decline in US beef production will support higher farm gate prices. The US is a key export market for Australia and a key competitor in a number of major overseas markets.

The positive pricing momentum during the period under review is reflected in the historic highs for young cattle prices during 2011, as well as the market rates for all categories, all of which are above where they were a year earlier.

At a domestic level, management adopted a deliberate strategy to maximise asset utilisation and take advantage of current favourable seasonal climatic conditions during the period under review.

This has been demonstrated by the approach to best practice herd management, resulting in increased herd levels and weight gain during 2011. With an abundance of pasture currently across AAco's property portfolio, these properties still hold six to eight months of pasture for the increased herd, mitigating the risk of a return to drought conditions.

HERD DEVELOPMENTS

During the period under review, AAco further leveraged favourable weather conditions by improving both the quality and size of its herd, supported by additional cattle purchases and strong calf brandings. This deliberate strategy is designed to position the Company to take advantage of the present decline in the global herd.

AAco is driving herd improvements through a focus on genetic breed types, age profile and fertility. This approach to diversification has allowed AAco to achieve a more balanced exposure to grass finished bullocks, Wagyu long grainfed, finished breeder cattle and live exports.

The Company's total herd stood at 665,591 as at 31 December 2011, including 56,107 head of high-value Wagyu cattle. This represents a 15% increase in the total herd on the previous year. This increase came through the purchase of a total of 177,516 cattle and 156,282 calves branded.

AAco Elite Stud Composite Cows at Carrum Station.

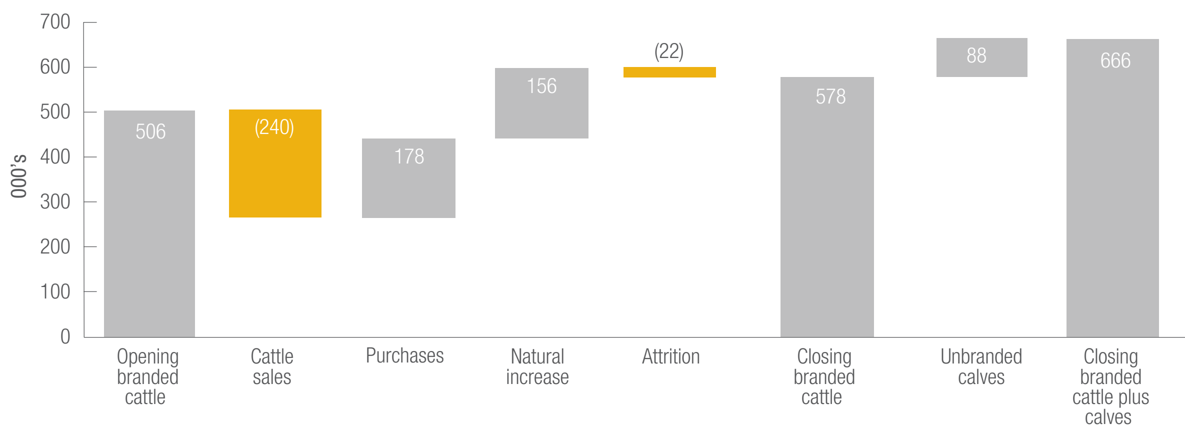
During the first six months of the 2012 year, AAco anticipate selling circa 120,000 of the herd, realising value currently in the herd.

A key highlight for the period was the acquisition of 53,531 branded cattle from Tipperary Group for a total consideration of $27.2 million. The herd acquired included high-quality Brahman cattle, comprising a mix of cows, heifers, steers, bulls and calves. The transaction includes a one year agistment agreement to use stations owned by Tipperary Group, including Tipperary and Litchfield stations, with options to extend at AAco's discretion. This acquisition reflected AAco's strategy of enhancing operating yields while minimising capital intensity.

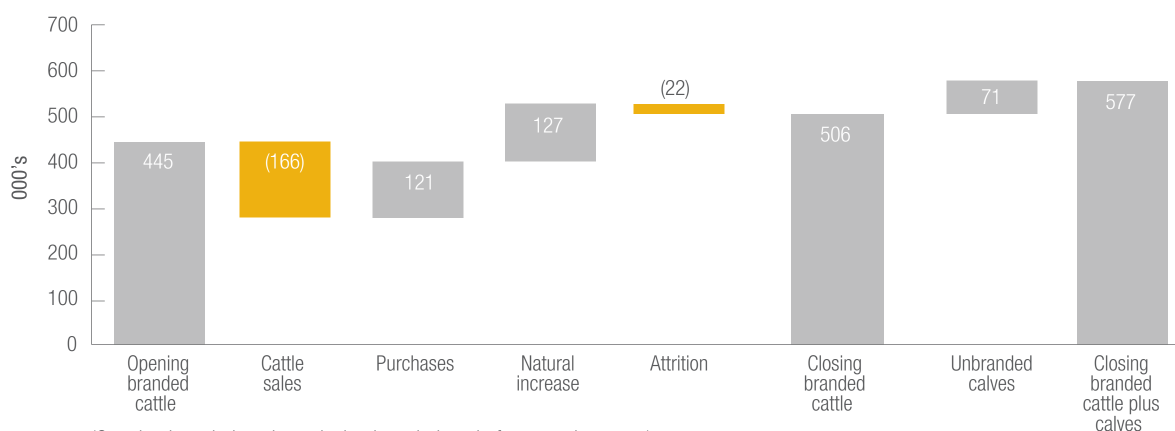
AAco's total cattle herd production increased cattle gross margins by 38% in dollar terms compared with the previous year.

The Company also entered into several other agistment agreements to graze cattle on properties across northern Australia. This approach enables the Company to maximise the immediate return on its working capital through weight gain and cattle production, while taking advantage of the current reduced feed costs.

Herd Movements 2011



Herd Movements 2010



(Opening branded cattle = closing branded cattle from previous year)

While current carrying levels presently reflect excellent pastures and positive seasonal conditions, they remain above medium term optimal levels.

At the conclusion of the wet season, AAco will assess the 2012 seasonal outlook and determine productivity capacity for the coming year. The assesment will determine the basis of herd size and structure for 2012.

BREEDING HERD

The age profile of both breeding cows and bulls has been a key focus over the past year. Older less active bulls have been retired from the herd and the profile of breeding females has been substantially improved, with significant improvements in calf production this year.

AAco's priority of maximising the number of live calves and re-breeding rates was achieved through the implementation of a rising cycle of nutrition supported by pasture management and appropriate feed supplementation. This approach has achieved 23% productivity gains from the breeding herd during the period.

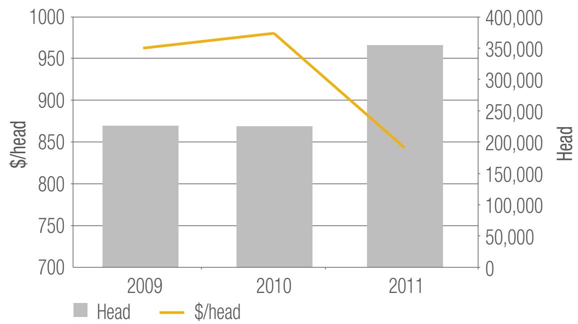
During the past year, a total of 156,282 calves were branded which represents a 23% increase on the previous year and 74% from joined females.

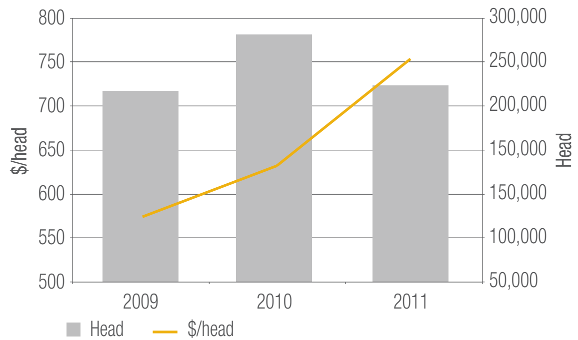
During the first round muster, a comprehensive pregnancy testing and segregation program was implemented and excellent positive pregnancy rates were recorded.

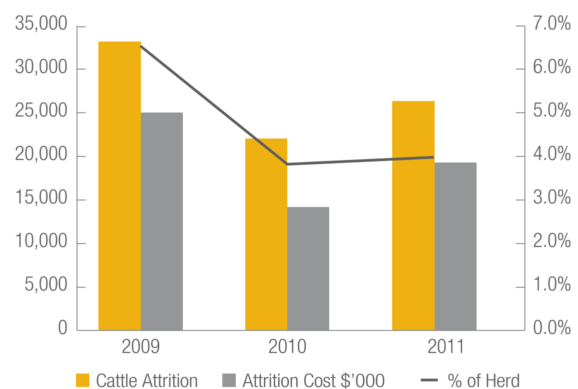
The business is also pursuing industry leadership in breeding genetically superior composites which will be successful in local conditions.

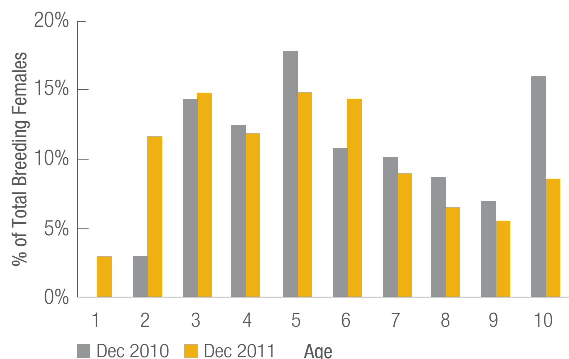
The benefits of a higher performing breeding herd will be reaped by AAco in the immediate future.

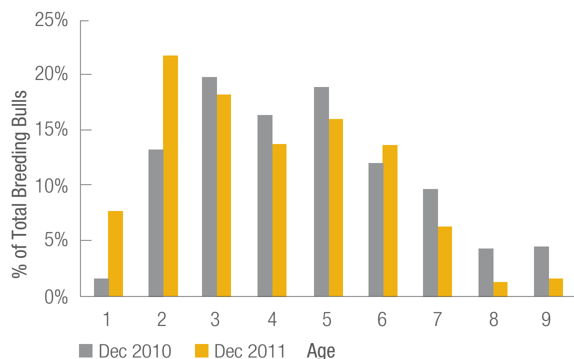
AAco, despite improved seasonal conditions and herd management, has maintained consistency with prior years in determining cattle attrition estimates. Improved accuracy in this area will come through the integration of RFID technology with individual herd management systems.



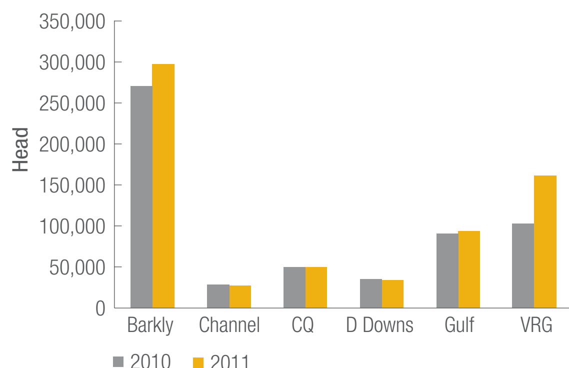








Cattle by Location 2011 and 2010



TRADING HERD

The trading herd business continued to focus on delivering rapid weight gains most efficiently for cattle preselected for identified domestic and international markets. This required a specific focus on pasture improvement and careful logistics planning to maximise market opportunities created by price movements.

The Company remains focused on securing strategic northern flood plain property to ensure maximum kilogram growth of cattle before export, and will examine agistment opportunities as they arise.

LIVE EXPORTS

During the period under review, the ABC's Four Corners program screened footage of Australian cattle being mistreated in some Indonesian abattoirs. This led to a public outcry about the live export sector in Australia and raised great concerns in Indonesia that Halal standards were not being adhered to. In response to these revelations, the Australian Government suspended live exports to Indonesia in June 2011, while initiating a review of live export policy settings to ensure animal welfare standards were improved.

Subsequently, the Australian Government introduced key measures, including the implementation of full traceability of cattle and animal welfare upgrades under the Supply Chain Assurance Scheme (SCAS) in the Indonesian supply chain, which saw trade recommence in August 2011.

In managing this issue, AAco's Chief Operating Officer Troy Setter and I travelled to Indonesia on several occasions to ensure all procedures were being adhered to. Visits included feedlots where AAco cattle were being well cared for in new facilities. Good progress was also being made with new abattoirs and the installation of stun gun technology.

As a key player in the industry, AAco adheres to rigorous quality assurance processes at every step of the supply chain, including its live cattle exports to Indonesia.

The Company was able to move rapidly to full compliance with the Australian Government's SCAS regime.

All of the exporters AAco sells to, and has sold to since the lifting of the suspension in August 2011, have approved supply chains through the SCAS.

In addition, all of the importers that buy AAco cattle from exporters have been independently audited and approved by the Australian Government.

AAco has signed forward contracts with SCAS-approved exporters until April 2012.

Notwithstanding the disruptions caused by the live export suspension to Indonesia, trading numbers materially improved following the lifting of the ban.

During the period under review, AAco sold 80,085 head of live cattle, compared with 76,755 in 2010.

AAco had completed slightly less than 50% of its 2011 live export program before the suspension.

Since the lifting of the ban, 44,311 head of cattle have left AAco stations for Indonesian markets.

However, the Company deliberately reduced its trading volumes of Indonesian feeder cattle due to the uncertainty created by the Australian Government policy.

Forward sales executed prior to the suspension assisted in limiting the financial impact on the Company.

Impacts were also mitigated by AAco, bringing forward plans to export to alternative international markets.

While AAco's response to the suspension on live exports to Indonesia assisted in limiting the impacts on the Company, this situation had considerable financial, social and community impacts on the northern cattle industry in general.

FEEDLOTTING

The feedlotting business is focused on maximising the market potential of cattle destined for domestic and international markets. The deliberate and rapid growth of feedlotting over the period has spread AAco's market risk and reduced the production risk in addition to increasing the throughput for the Beef Group and feedlot assets. AAco's feedlots are currently focusing on Wagyu cattle, which deliver high-value meat and are in high demand throughout the world. The Company now represents 55% of Australian Wagyu production.

FARMING

AAco farming operations demonstrate the Company's focus on maximising the utilisation of our assets. Producing a cotton crop using arable land and water assets enables the Company to provide a further return on investments. AAco's cotton crop delivered crop yields above expectations during the period under review. Dryland crops yielded 3.26 bales per hectare, while the irrigated cotton crop yielded 12.45 bales per hectare for a total 11,946 bales for

Photo: Glenn Campbell/Fairfax Syndication

AAco Chief Operating Officer Troy Setter with traditional owners including Elder Jimmy Wavehill, at the celebration to mark the recognition of the rights of Aboriginal traditional owners at Pigeon Hole, 700 kilometres from Darwin.

AAco ADOPTS A SENSITIVE AND FORWARD LOOKING APPROACH TO ITS RELATIONSHIP WITH INDIGENOUS COMMUNITIES

AAco recognises the important role of Indigenous people in the Company's history and acknowledges the long established relationship and shared history between Indigenous people and AAco.

The Company also acknowledges the clear benefits that have flowed from this relationship and seeks to work in a meaningful and respectful way with Indigenous people to build on this foundation.

Our endeavours in engaging with the neighbouring communities of our stations are starting to deliver positive outcomes. As an example, working with the Indigenous Land Corporation, we have managed to achieve effective employment and training programs at our stations including Brunette, Anthony, Eva and Tipperary. We are looking to expanding on these initiatives throughout 2012.

During 2011, AAco, along with the Northern Territory Government and a number of other station owners, accepted the native rights of Aboriginal clans whose land covers six cattle stations, including the Company's East and West Montejinni and Camfield stations. This acceptance by AAco and the other parties allowed the Federal Court to settle native title recognition claims over more than 15,000 square kilometres of the Northern Territory without the need for a court trial.

It is believed this decision will streamline the process for traditional owners seeking recognition of their rights over their land without adversely impacting the operation of cattle stations. This is a positive development for your Company because it provides certainty.

the 2011 harvest. The cotton crop results were achieved despite the impact of Queensland floods early in 2011. AAco proposes to marginally expand the area under plant for the next cotton crop, given adequate rainfall and water allocations.

AAco planted 1,530 hectares of wheat at Goonoo Farm in Central Queensland this year and the crop yielded 2.96 tonnes per hectare, which was an outstanding result compared to the average district yield of 2.5 tonnes per hectare. The Wylarah Farm in western Queensland planted 1,420 hectares of wheat, with crops yielding 3.26 tonnes per hectare, also above the district average of 2.0 tonnes per hectare. The Company's sorghum crops at both farms yielded between 3.0 and 4.9 tonnes per hectare. Both wheat and sorghum crop yields surpassed those achieved over the past decade as a result of correct nutrient and water management programs, and excellent seasonal conditions.

BEEF GROUP

The Beef Group is focused on selling the right cuts of beef into the appropriate international markets.

AAco's suite of branded products continue to enjoy international respect, with the 1824 market continuing to grow and branded Wagyu products, Darling Downs, Kobe Cuisine, Takumi and Master Kobe growing market share during the period under review.

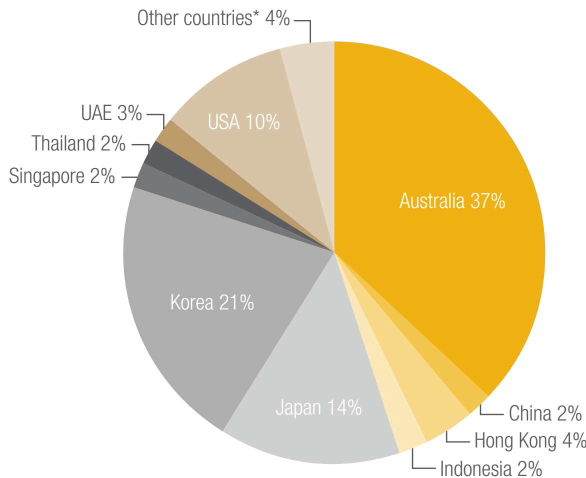
Global economic uncertainty, natural disasters in Japan, an ascending Australian dollar and narrowing of the difference between the grass-fed and grain-fed prices, combined with excellent domestic pastoral conditions, delivered a challenging international market for our products during the period under review. Despite these challenges, the Beef Group expanded revenue during the period.

The Group's focus over the past year has been on building stronger relationships with existing customers, while looking for further opportunities for expansion into new markets such as China, United Arab Emirates and Russia. AAco's strategic investment in Asia has continued to benefit the Company with south-east Asia now comprising more than 50% of boxed beef exports.

The Company understands to compete as a successful modern agribusiness it must change its focus from price taker to price maker. To achieve this AAco has adopted a strategic approach to margin management, which has required increased throughput during windows of opportunity when higher boxed beef prices were anticipated.

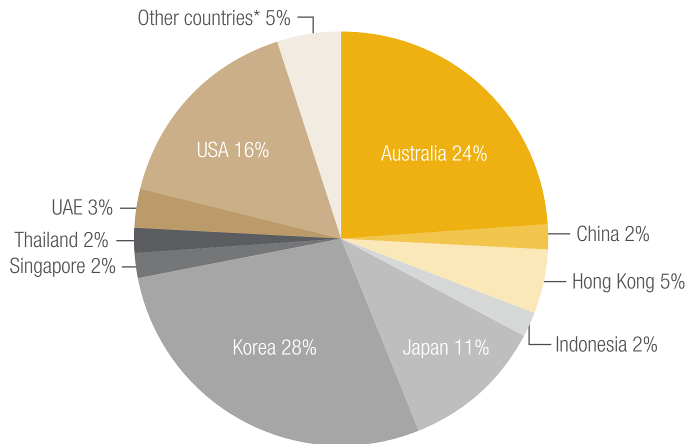
AAco currently outsources beef processing to a four abattoir platform in South East Queensland and the Company is currently giving consideration to consolidation of this platform in an effort to achieve greater efficiencies.

Total Beef Group Sales by Country 2011



***Other countries include:** Belgium, French Polynesia, Germany, Lebanon, Netherlands, Papua New Guinea, Saudi Arabia.

Beef Group Wagyu Sales by Country 2011



***Other countries include:** Belgium, French Polynesia, Germany, Lebanon, Malaysia, Netherlands, Papua New Guinea, Phillipines, Saudi Arabia, Saudi Arabia, Taiwan, UK.

AAco has continued to demonstrate innovation throughout the supply chain and across the business. The Company brands provide assurance to customers in relation to quality, tenderness, flavour and consistency worldwide. AAco's brand differentiation strategy – marketing the same product internationally under different brands – is assisting to maximise market share in international markets.

AAco continues to see demand for Wagyu products increase domestically and internationally, with the Company's flagship Wagyu brand Master Kobe continuing to be prized around the world. The Company's Wagyu is supplied to exclusive hotels and restaurants around the world and is now the number one seller in the US market. In addition, the development of a range of value added products, including the highly successful Wagyu burger offering has progressed during the period.

During the past year, it was pleasing to see Master Kobe win the gold medal at the prestigious Sydney Royal Fine Food Show following wins at the Royal Queensland Food and Wine Show, where it was named "Australia's Best Steak" and "Champion of Show".

INNOVATION

Continuous improvement and innovation remain fundamental to enhancing AAco's competitiveness in the global environment.

AAco has invested in a complete upgrade of its Information Technology (IT) and communications systems. The significant improvements in technology are allowing our station operations to thrive in a modern, global business environment, able to address constantly evolving opportunities and demands. The new infrastructure is enabling a fundamental transformation to our business, bringing with it efficiencies and opportunities to facilitate the most important cultural and operational shift of the Company's recent history.

The capacity for high speed communication and data transfer will give AAco access to greater information to support continuous improvement – such as improving productivity and reducing production costs – while also informing critical business decisions such as cattle movements and consumer trends. This information will enhance the Company's ongoing capacity to improve and innovate.

AAco is committed to maximising energy efficiency across the business. The Company remains committed to reducing its on-station diesel usage and continues to investigate the introduction of solar technology to its operations to deliver environmental and financial efficiencies and mitigate against future fuel price increases.

Photo courtesy of the RNA

Using the results of aerial surveying and spatial mapping, AAco has commenced development of precision flood protection for two properties at Wondoola and Dalgonally. Based on the utilisation of this technology, AAco will be able to build embankments for cattle to retreat from rising floodwaters in the future.

AAco's innovative approach to cattle genetics is also assisting the Company to carve out a critical advantage with its Wagyu beef. The Company systematically stores cattle DNA samples that enable the tracing of cattle bloodlines through the entire production process. AAco recently partnered with leading pharmaceutical company Pfizer to correctly identify the bloodline of a sample of award winning beef. This level of traceability is becoming increasingly important to consumers who equate knowing the origins of the food they eat with quality.

NORTHERN TERRITORY MEAT PROCESSING FACILITY

AAco continues to make good progress in its plans to develop a state-of-the-art food processing facility in the Northern Territory. A development application was lodged with the Northern Territory Government in September 2011, marking a critical milestone for this project. Pending government approvals and government infrastructure funding being secured, the Board will be in a position to consider the appropriate capital structure and, ultimately, final project endorsement.

The final approval by the Board will be reliant on firm appropriate government commitments to deliver project and public infrastructure.

The new processing facility is part of the Company's long-term strategic vision to deliver improved vertical integration along the beef value chain. The new food processing facility will have the capacity to process up to 1,000 cattle per day at full capacity, producing export beef products, hides and rendered products for export to markets in the US, Europe and Asia. The facility is a vital link in the supply chain to international markets while providing AAco greater control over product quality and prices.

It is anticipated that the plant will cost approximately $80-85 million, including land and infrastructure. AAco plans to seek co-investors for the plant during 2012 once the final development approvals have been received and AAco is satisfied that the appropriate level of government support for the infrastructure is in place. It is anticipated that this process will be resolved in the first half of 2012.

With no local beef processing facilities in northern Australia, the new food processing facility will support the whole of northern Australia's beef industry. The new facility will allow cattle to be processed locally, reducing transport and freight costs for northern producers who currently need to truck live cattle across large distances to southern processing plants. AAco has estimated that this project will produce savings of 6.5 million transport kilometres per annum.

In terms of carbon abatement, the combined benefits of reduced transport for northern Australian pastoralists, fewer emissions through export efficiencies and a low carbon footprint for the plant through world leading technology, this plant delivers significant reductions.

MANAGEMENT

AAco's senior management and staff were further strengthened in 2011 with a number of key appointments across the business.

The new appointments bring extensive expertise in their various fields and further bolster the capability of AAco's senior management team. In addition, AAco's commitment to education and training has included enhancing financial awareness of the broader management team and improving management capability within AAco's management team.

AAco's management team remains highly committed and motivated to delivering the Company's turnaround strategy, cementing its position as an industry leader.

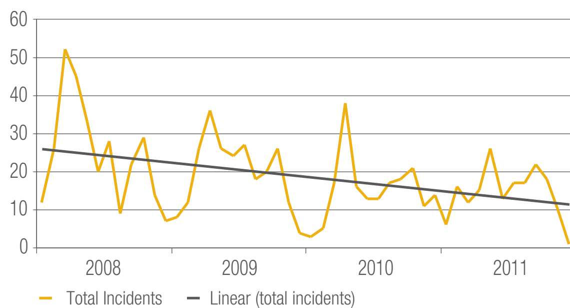
AAco is investigating solar technology to maximise energy efficiency across the business.

SAFETY

AAco continues to adopt a safety first approach in all aspects of its business by fostering a culture of safety awareness and action. This approach resulted in a reduction in safety incidents in 2011 of 8% on the previous year, following a 24% reduction in 2010.

Your Company is proud to set a positive and consistent standard across all levels of administration, supervision and management, positioning AAco as an industry leader in managing the safety of all AAco employees, visitors, contractors and non-employees working or living on AAco sites.

Total Incidents December 2012

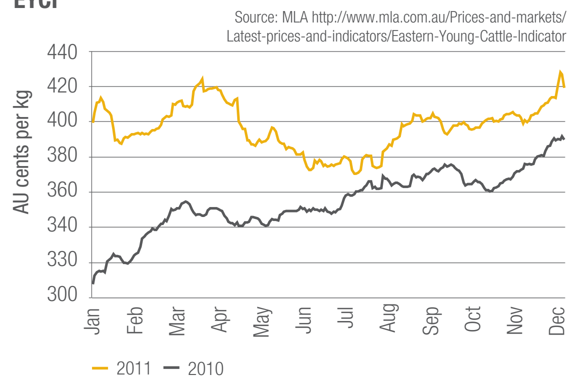


PRICING

Global demand for beef remains strong, driven by world population growth and rising GDP and incomes in emerging economies.

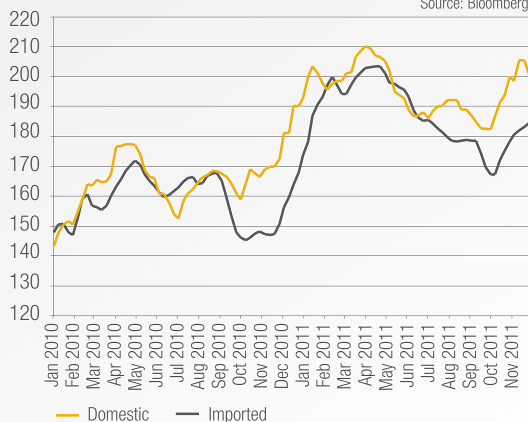
Demand was impacted by the high Australian Dollar, ongoing global economic uncertainty, and events in key supply markets, including the drought in several beef-producing states in the US which led to competitively priced products entering the market. The situation in the US is unsustainable and it is expected to abate mid-to-late 2012. At this time, AAco will be in a strong position to capitalise on the higher global beef prices expected at the same time.

EYCI



AAco employees working at Brunette Downs during 2011.

Domestic and Imported Manufactured Meat (90CL) Prices



OUTLOOK

The seasonal climate outlook for Australia paints a positive outlook for cattle producers across large sections of the country.

Following a decade of drought, Australia is facing a third consecutive wet year. Above-average rainfall is forecast across northern, eastern and south-west Australia as the La Nina weather pattern returns for another summer. While the early onset of the wet season initially delayed cattle movements, these ongoing favourable seasonal conditions provide a further opportunity for AAco to ensure herd improvements and maximise asset utilisation.

The challenge for your Company during 2012 will be to ensure that AAco maintains the momentum, which has been achieved through delivering on the milestones outlined in our turnaround strategy.

Your Company has skilled and dedicated people who are contiunally educated and trained to deliver on our key objectives of increasing our vertical integration and improving our financial performance in 2012.

To achieve these objectives AAco will continue to focus on herd improvements through increased productivity, higher weight gain, enhanced genetics and reduced input costs. In addition, AAco will continue to seek to increase land utilisation to maximise profit. Finally, the Company's planned meat processing facility in Darwin is destined to provide further productivity gains through vertical integration.

Given the tightening global beef supply and the extremely positive pricing environment, AAco believes it will be well positioned to take advantage of these improving fundamentals and to increase profitability once a steady state herd has been achieved in line with our plans during 2012.

The strength of Australian beef prices, despite the strong Australian Dollar, provides good reason for optimism.

There is now a global shortage of beef, and that is being reflected in ascending cattle and beef prices. I am confident your Company is aligned with the immediate global metrics of shrinking supply and increasing demand.

In closing, I would like to thank management and staff at AAco for their commitment, hard work and enthusiasm for the revitalisation of the Group during the past year. Our people will be the key to our success in the future.

We look forward to the current year with confidence as we continue our drive to lift productivity and returns from our operations to achieve earnings growth for shareholders.

David Farley
Chief Executive Officer and Managing Director

Australian Agricultural Company Limited

ABN 15 010 892 270

FINANCIAL REPORT

For the Year Ended 31 December 2011

Directors' Report

Your Directors submit their report for the year ended 31 December 2011.

DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are set out in the following section. All of the Directors were in office for the entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Donald McGauchie AO, FAICD (Non-executive Chairman)

Mr. McGauchie was appointed a Director on 19 May 2010 and subsequently Chairman on 24 August 2010. Mr. McGauchie is the Chairman of the Nomination Committee, a member of the Audit Committee, the Staff and Remuneration Committee, and the Risk Management Committee.

Mr. McGauchie is currently a Director of James Hardie SE, Chairman of Nufarm Limited and Director of GrainCorp Limited. His previous roles with public companies include Chairman of Telstra Corporation Limited, Deputy Chairman of Ridley Corporation Limited, Director of National Foods Limited, Chairman of Woolstock, Chairman of the Victorian Rural Finance Corporation (statutory corporation), and also President of the National Farmers Federation. During 2011 he retired as a member of the Reserve Bank Board. In 2001 Mr. McGauchie was named the Rabobank Agribusiness Leader of the Year, was later awarded the Centenary Medal for services to Australian society through agriculture and business and in 2004 was appointed an Officer of the Order of Australia.

During the past three years, Mr. McGauchie has served as a Director of the following listed companies:
- James Hardie SE* - Appointed August 2003;
- Nufarm Ltd* - Appointed December 2003;
- Graincorp Ltd* - Appointed December 2009; and
- Telstra Corporation Ltd – Appointed 6 November 1998; Retired 8 May 2009.

*Denotes current Directorship

David Farley (Managing Director/Chief Executive Officer)

Mr. Farley was appointed Managing Director/Chief Executive Officer on 1 December 2009. Mr. Farley attends all Board Committee meetings by invitation.

Mr. Farley has held a number of senior leadership and Board roles at high profile Australian and international agribusinesses, across a variety of agricultural commodities with a career spanning more than 35 years.

Mr. Farley was formerly Managing Director and CEO of Colly Cotton Limited, Australia's largest cotton producer, a position he held for more than 16 years. Mr. Farley's executive leadership roles also include President/CEO of Calcot, a US cotton warehousing and marketing co-operative and Farms and Development Manager at F S Falkiner & Sons.

Mr. Farley is the Principal and Executive Chairman of Matrix Commodities and previously sat on the Boards of Tandou Limited, Wool International, and Rural Industries Research and Development. Mr. Farley commenced his career as a Jackeroo on sheep and cattle stations in Queensland and the NSW Riverina.

During the past three years, Mr. Farley has served as a Director of the following listed company:
- Tandou Limited - Appointed November 2007; Resigned March 2010.

Nick Burton Taylor AM B.Ec (Syd), F Fin, FCA, FAICD

Mr. Burton Taylor was first appointed to the Board of the Company in April 2001 and was Chairman from August 2003 until 21 May 2008. He was subsequently elected a Director on 12 June 2009. Mr. Burton Taylor is Chairman of the Audit Committee, a member of the Nomination Committee and Staff and Remuneration Committee.

Mr. Burton Taylor is Chairman of Delta Agribusiness. He is the past Chairman of Airservices Australia and Australian Topmaking Services Limited. He is a past Director of CSR, Rural Press Limited, Hazelton Airlines Limited, GrainCorp Limited, Federal Airports Corporation and Sydney Airport Corporation Limited, and a former member of the Rabobank Advisory Board. Mr. Burton Taylor owns Hillgrove Pastoral Pty Ltd and Kenny's Creek Angus, producers of beef, wool and grain. He is a Past President of the Institute of Chartered Accountants of Australia and current Chairman of the Country Education Foundation of Australia.

During the past three years, Mr. Burton Taylor has served as a Director of the following listed company:
- CSR Limited – Appointed August 2008; Resigned 11 May 2011.

.

DIRECTORS (continued)

Chris Roberts B.Comm

Mr. Roberts was first appointed to the Board in June 2001. Prior to his resignation on 21 May 2008, he was Chairman of the Audit Committee. He was subsequently elected a Director on 12 June 2009. Mr. Roberts is a member of the Staff and Remuneration Committee (and was committee chair up to 28 November 2011), the Nomination Committee and the Audit Committee.

Mr. Roberts is currently the Chairman of Amcor Limited, Deputy Chairman of The Centre for Independent Studies and a Director of Control Risks Group Holdings Limited. His prior experience includes Chairman and Managing Director of Arnotts Limited, Chairman of Email Limited, Director of Telstra Corporation Limited, MLC Life Limited and Managing Director of Orlando Wyndham Wines.

During the past three years Mr. Roberts has served as a Director of the following listed company:
- Amcor Limited* – Appointed February 1999.

*Denotes current Directorship

Arunas Paliulis BA

Mr. Paliulis was appointed a Director on 12 June 2009. Mr. Paliulis is the CEO and board member of Felda IFFCO LLC in Cincinnati, Ohio, United States of America. He is a member of the Staff and Remuneration Committee, the Nomination Committee, and the Risk Management Committee.

Mr. Paliulis is a graduate of Harvard College, Cambridge, Massachusetts. He has over 35 years of experience in the global trading of grains, oilseeds and feedstuffs and in devising risk management strategies for several organisations, including Cargill Inc. (USA), Louis Dreyfus Corporation (USA and France), Woodhouse, Drake & Carey (UK) and Emirates Grain Products Co LLC (UAE). Mr. Paliulis is a member of the Board and CEO of F.I.N.A. based in Cincinnati, Ohio, USA.

Datuk* Dr. Abdul Samad bin Haji Alias (Datuk Abdul Samad) B.Comm, FCA, MIA, MICPA *(appointed 13 April 2010, re-elected 19 May 2010, resigned 26 January 2011)*

Datuk Abdul Samad was appointed a Director on 13 April 2010 and resigned on medical grounds on 26 January 2011. Datuk Abdul Samad was a member of the Audit Committee and Nomination Committee.

Datuk Abdul Samad holds a Bachelor Degree in Commerce from the University of Western Australia. Datuk Abdul Samad is a Fellow of the Institute of Chartered Accountants of Australia, a member of the Malaysian Institute of Accountants ("MIA") and a member of the Malaysian Institute of Certified Public Accountants ("MICPA"). Datuk Abdul Samad was the President of MICPA from 1999 to 2002 and has served as a member of the Malaysian Accounting Standards Board and the Financial Reporting Foundation. From September 2000 to August 2005, Datuk Abdul Samad was the President of MIA. Datuk Abdul Samad was also elected to the Board of the International Federation of Accountants.

* 'Datuk' is an honorific title awarded by the Federal/State Governments in Malaysia to recognise those who have made a significant contribution to the Federal/State or community.

Dato' Sabri Ahmad BSc (Hons), MSc *(appointed 4 April 2011)*

Dato' Sabri Ahmad joined the Board to act as an alternate Director for Datuk Abdul Samad from 22 November 2010 and resigned on 26 January 2011. Dato' Sabri Ahmad was appointed a director on 4 April 2011 and is a member of the Nomination Committee.

Dato' Sabri Ahmad is the current Group President/Chief Executive Officer of Felda Global Ventures Holdings and Felda Holdings Berhad, the parent company of all the commercial entities of Felda (a land development agency that was formed by an Act of Parliament in 1956). He holds BSc (Hons) Agricultural from the University of Malaya and MSc in Agricultural Economics from the University of London. He also holds an Advanced Diploma in International Studies from the University of Rhode Island and an Advanced Diploma in Management from the University of Oxford. Previously, he was the Chairman of Malaysian Palm Oil Board (MPOB), and also served as the Chief Executive Officer of Golden Hope Plantations Berhad. He has held several key positions at Golden Hope Plantations Berhad. Dato' Sabri Ahmad had also experienced serving companies such as Harrisons Malaysia Plantations Berhad, Fisheries Development Authority (MAJUIKAN) and Ministry of Agriculture. Additionally, he is a member of the Policy Advisory Committee of MPOB and Vice President of Business Council of Sustainable Development Malaysia.

* 'Dato' is an honorific title awarded by the Federal/State Governments in Malaysia to recognise those who have made a significant contribution to the Federal/State or community.

DIRECTORS (continued)

Stuart Black FCA, FAICD, BA (Accounting) ***(appointed 5 October 2011)***

Mr. Black was appointed a Director on 5 October 2011. Mr. Black is a member of the Audit Committee and Nomination Committee.

Mr. Black is Managing Partner of Chapman Eastway Chartered Accountants and has extensive experience in agribusiness. He is a current non-executive director of leading geophysical consultants Coffey International Limited, and a Past President of the Institute of Chartered Accountants of Australia. He was the inaugural Chair and is a current Board Member of the Australian Accounting Professional and Ethical Standards Board. Mr Black is the representative of the Australian accounting bodies on the International Federation of Accountants Small Medium Practice Committee.

During the past three years Mr. Black has served as a Director of the following listed company:
- Coffey International Limited* – Appointed March 2002.

*Denotes current Directorship

David Crombie BEcon (UQ) ***(appointed 5 October 2011)***

Mr. Crombie was appointed a Director on 5 October 2011. Mr. Crombie is a member of the Audit Committee, Nomination Committee and Staff and Remuneration Committee.

Mr Crombie is a Director of Alliance Aviation Services Limited and Foodbank Queensland Limited. He was a founding Partner and is currently a non-Executive Director of GRM International and he is also a Commissioner of the Australian Centre for International Agricultural Research (ACIAR). He is the immediate Past President of the National Farmers Federation, former Chairman of MLA and a former Director of Grainco Australia, the Meat Industry Council and Export Finance Insurance Corporation.

Mr Crombie operates family properties, breeding cattle and farming in southern Queensland.

During the past three years Mr. Crombie has served as a Director of the following listed company:
- FKP Property Group - Resigned November 2010.

Tom Keene B Ec, FAICD ***(appointed 5 October 2011)***

Mr. Keene was appointed a Director on 5 October 2011. Mr. Keene is a member of the Risk Management Committee, Nomination Committee and Chairman of the Staff and Remuneration Committee.

Mr. Keene has an extensive career in agriculture and is the former Managing Director of Graincorp Limited, where he established the company as a listed entity. He is the current chairman of Grain Trade Australia, and a director of Cotton Seed Distributors and Midway Limited.

During the past three years Mr. Keene has not served as a Director on any other listed company.

Irfan Allana (alternate Director for A. Paliulis)

Mr. Irfan Allana is the major shareholder and promoter of Allanasons Limited, India. Mr. Irfan Allana pioneered processing and export of frozen Buffalo meat from India.

The Allana Group is the world's largest processor of frozen Buffalo meat, exporting to over 70 countries. Mr. Irfan Allana also pioneered processing of various fruits and vegetables in several parts of India resulting in Allanasons Limited being the leading exporter of processed and frozen mango and guava from India. Mr. Irfan Allana joined the Board to act as an alternate Director for Arunas Paliulis from 22 November 2010.

COMPANY SECRETARY

Bruce Bennett BCom, LLB, ACIS, MAICD

Mr. Bennett was appointed Company Secretary and General Counsel in November 2006. Before joining the Company, he was Special Counsel for a leading law firm, where he specialised in company and property law, mergers and acquisitions and other commercial contracts. He has over 19 years' experience in legal practice, having practised in both Queensland and New South Wales. Mr. Bennett is a Chartered Secretary and a member of the Australian Institute of Company Directors.

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this report, the interests of the Directors in the shares and options of the Australian Agricultural Company Limited were:

	Ordinary Shares	Options over Ordinary Shares	Performance Rights
Current Directors			
D. McGauchie	198,689	Nil	Nil
D. Farley	339,063	Nil	410,023
N. Burton Taylor	6,305,802	Nil	Nil
A. Paliulis	Nil	Nil	Nil
C. Roberts	60,563	Nil	Nil
Dato' Sabri Ahmad	Nil	Nil	Nil
S. Black	Nil	Nil	Nil
D. Crombie	Nil	Nil	Nil
T. Keene	Nil	Nil	Nil
I. Allana (alternate)	Nil	Nil	Nil
Former Directors[1]			
Datuk Abdul Samad	10,000	Nil	Nil

[1] *Shareholding as at the date of resignation or retirement*

DIVIDENDS AND EARNINGS PER SHARE

Earnings Per Share	2011 Cents	2010 Cents
Basic earnings per share	3.6	0.3
Diluted earnings per share	3.6	0.3

No final or interim dividends were declared or paid during the year (2010: Nil).

CORPORATE INFORMATION

Nature of Operations and Principal Activities

The principal activities of entities within the Group during the year were:

- Operation of grazing and farming properties;
- Beef cattle breeding, growing, feedlotting and trading; and
- Beef value-add businesses relating to wholesale meat marketing.

Employees

The Group employed 449 employees calculated on a full time equivalent basis as at 31 December 2011 (2010: 391 employees).

OPERATING AND FINANCIAL REVIEW

Group Overview

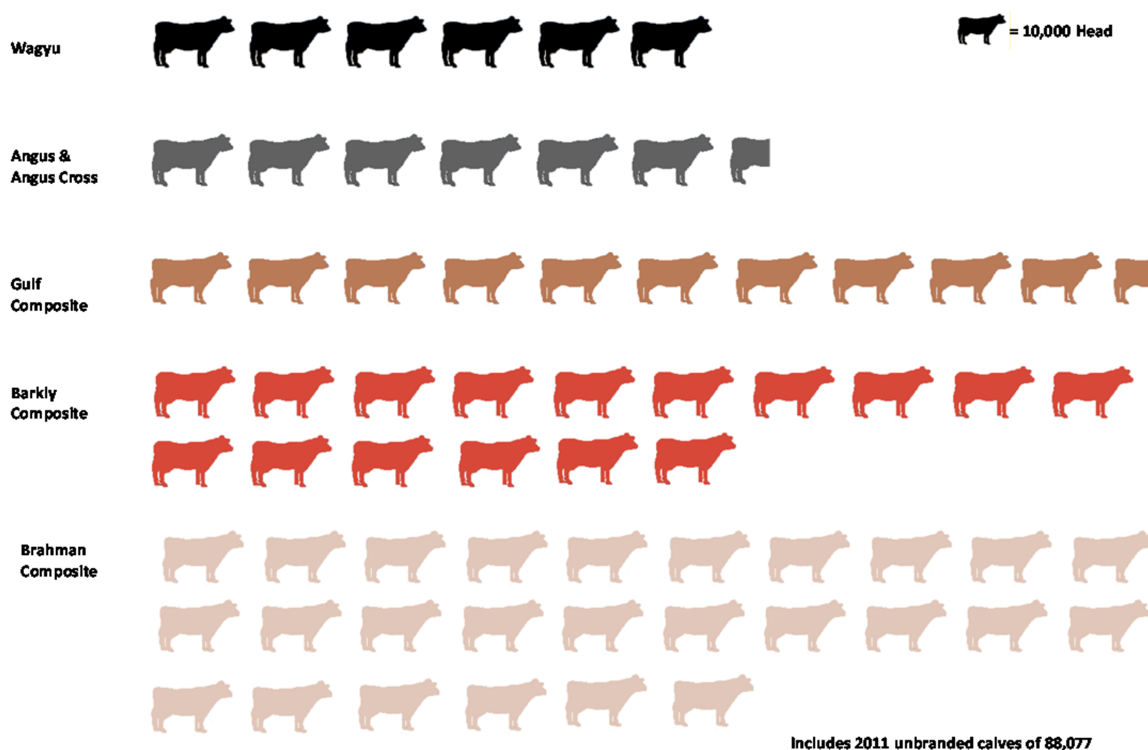
In 1824, by an Act of British Parliament, the Australian Agricultural Company was formed with a grant of one million acres, with the stated aim of cultivating and improving the wastelands of the colony of New South Wales.

Today the Group is considered to be the largest beef cattle producer in Australia and runs a herd of approximately 665,591 (2010: 577,144) head of beef cattle, including unbranded calves.

OPERATING AND FINANCIAL REVIEW (continued)

Group Overview (continued)

Herd Composition	2011	2010	2009
Composites/Bos Indicus	521,407	464,899	411,741
Wagyu	56,107	41,007	31,442
Unbranded calves	88,077	71,238	64,493
Totals	**665,591**	**577,144**	**507,676**
Feedlot	39,305	41,675	34,032
Trading	184,114	239,613	183,103
Breeders/Bulls/Stud/Unbranded calves	442,172	295,856	290,541
Totals	**665,591**	**577,144**	**507,676**



The Group operates an integrated cattle production system across 18 cattle stations, 5 agisted properties, 2 owned feedlots, 5 external feedlots, and 3 farms located throughout Queensland and the Northern Territory, covering approximately 7.2 million hectares.

The Group produces beef cattle that are processed for a range of uses, from prime cuts typically sold in restaurants or supermarkets, to manufacturing beef, which is typically used for hamburgers.

The Group operates a wholesale beef trading operation that traded 17.4 million (2010 – 15.0 million) kilograms of boxed beef during the period.

31 December 2011 Financial Highlights

- Sales growth of $93.4 million (32.1% increase) compared to the 2010 comparative period
- Gross margin growth of $26.1 million (25.6% increase) compared to the 2010 comparative period
- EBITDA growth of $16.8 million (40.7% increase) compared to the 2010 comparative period
- EBIT growth of $17.3 million (60.9% increase) compared to the 2010 comparative period
- Profit after tax growth $9.6 million (1,064.3% increase) compared to the 2010 comparative period

OPERATING AND FINANCIAL REVIEW (continued)

Group Overview (continued)

Results

	Full year 2011 $'000	Full Year 2010 $'000	Favourable/ (Unfavourable) Movements %
Cattle Trading			
Cattle sales	230,488	156,892	46.9%
Deemed cost of goods sold	(230,488)	(156,892)	(46.9)%
Cattle expenses and cattle feedlot expenses	(62,807)	(47,532)	(32.1)%
Cattle growth	66,224	45,580	45.3%
Other cattle trading, including market value adjustments	105,153	80,644	30.4%
Pastoral Group Gross Margin	108,570	78,692	38.0%
Beef Group & Chefs Partner [(1)]			
Sales	141,863	131,102	8.2%
Cost of goods sold	(135,390)	(114,523)	(18.2)%
Boxed Beef Trading Gross Margin	6,473	16,579	(61.0)%
Crops			
Income	12,000	2,910	312.4%
Crop costs	(6,720)	(3,247)	(107.0)%
Crops Gross Margin	5,280	(337)	1,666.8%
Other Income	7,380	6,717	9.9%
Gross Margin	127,703	101,651	25.6%
Expenses			
Administration and other expenses	(13,783)	(10,615)	(29.8)%
Business development	(1,462)	(1,262)	(15.8)%
Employees	(31,724)	(28,253)	(12.3)%
Lease and property related costs	(4,328)	(4,756)	9.0%
Other station operating costs	(18,263)	(15,435)	(18.3)%
Operating expenses	(69,560)	(60,321)	(15.4)%
Earnings from operations - EBITDA	58,143	41,330	40.7%
Depreciation/amortisation [(2)]	(12,395)	(12,902)	3.9%
Earnings from operations - EBIT	45,748	28,428	60.9%
Interest and finance costs	(31,176)	(26,610)	(17.2)%
Profit from operations	14,572	1,818	701.6%
Income tax expense	(4,047)	(914)	(342.3)%
Profit after tax	10,525	904	1,064.3%

(1) Chefs Partner Operations were closed in May 2011. The contribution to EBITDA for 2011 was a loss of $2.8 million

(2) Includes impairment for Chefs partner of $3.1 million (2010 - $1.6 million) and other impairments of intangibles totaling $1.3 million

The Group continues to drive the herd improvement process through a continued focus on genetic breed types, age profile and fertility. This has allowed the Group to achieve a more balanced exposure to grass finished cattle, Wagyu long grain fed, finished breeder cattle and live exports.

During 2011, 239,765 head of cattle were sold (2010: 165,935 head). As the Company approached 2011 year end and the wet season, a high proportion of cattle were held on properties with easy bitumen road access, providing improved opportunity for timing each sale to benefit from good market conditions.

The Federal Government's temporary suspension of the live cattle trade to Indonesia in early June 2011, had a significant impact on our operating environment. AAco responded by diverting cattle to other production and marketing channels, which assisted in mitigating some of the financial impacts on the Company. The live cattle suspension impacted on the June 2011 result by $8.2 million (loss) reflecting the then estimated market value loss on the affected herd.

OPERATING AND FINANCIAL REVIEW (continued)

Group Overview (continued)

Since trade resumed, the market value of cattle in the areas affected by the suspension has improved. Notwithstanding, the Group suffered loss on cattle delivered or contracted during the period of the suspension. Losses were also sustained from cattle falling out of specification and having to be delivered to other markets. These revenue losses coupled with increased freight, logistical and other additional costs, as a consequence of the suspension, give rise to estimated total direct losses of $5.0 - $8.0 million, however more work is being undertaken to quantify actual losses. AAco continues to work closely with Government and our supply chain partners in Indonesia to ensure compliance with the new live export regime.

Land, including buildings and improvements, represents 51% (2010: 54%) of the gross assets (excluding cash) of the Group. The Directors revalued those properties that were valued by an external valuer during the year. As a consequence there has been a revaluation increment of $9.5 million recognised in property, plant and equipment at balance date (2010: devaluation $76.7 million).

During 2011 the Chefs Partner operations were closed due to poor performance. The impact of this discontinued operation was an operating loss before tax of $5.6 million and impairment losses to the Group of $3.1 million.

Performance Indicators

Management and the Board monitor the Company's overall performance against the financial budget and forecasts together with an ongoing focus on core operational activities.

Dynamics of the Business

The benefit from improved herd profiles and beef prices, despite the AUD remaining strong, and good seasonal conditions has seen a significant increase in the operating returns to the Group.

The herd profile has continued to strengthen as part of the overall operational improvements and when combined with the increased herd size, has positioned the Group to benefit further in the coming years.

Operating Results for the Year

Summarised operating results are as follows:

Operating Segments – continuing operations	**Revenues**		**Earnings before finance costs and income tax expense**	
	2011	**2010**	**2011**	**2010**
	$M	**$M**	**$M**	**$M**
Live Cattle	242.5	159.8	49.3	22.6
Wholesale Beef	135.2	114.3	1.9	8.7

Both segments delivered satisfactory growth at the Revenue line reflecting the improved seasonal conditions and the improved beef prices. The growth in Revenue provided increased EBIT for the Live Cattle Division. EBIT margins in the Beef Division were impacted by the effects of the tsunami and earthquake in Japan, increased throughput of the local Hanwoo beef in Korea reducing prices and margins and increased competition from US beef in Japan and Korea lowering prices and reducing margins.

OPERATING AND FINANCIAL REVIEW (continued)

Shareholder Returns

The Company derives its returns from its two main asset holdings, cattle and land. Cattle provide earnings/cash flow and land provides potential for capital growth. Underlying capital growth in land is not shown in net profit after tax but is reflected in the Statement of Comprehensive Income and directly into equity in the Statement of Financial Position.

	2011	2010	2009	2008	2007
Asset based returns					
Increase/(decrease) in land values (net of tax) represented in movements in the asset revaluation reserves as a percentage of property values	1%	(9)%	(1)%	2%	18%
EBITDA return on average herd value post valuation	14%	11%	(12)%	3%	10%
Combined return on gross assets after notional tax at 30%	1%	(5)%	(6)%	(2)%	11%
Profit based returns					
Return on sales (EBITDA)/revenue	15%	16%	(30)%	6%	16%
3 year compound total shareholder return (TSR)	(11)%	(23)%	(4)%	8%	30%
3 year compound growth in ASX Small Ordinaries index*	9%	(5)%	(1)%	(4)%	21%
Per share statistics					
EPS	3.6 cents	0.3 cents	(20) cents	(15) cents	1 cent
Dividend paid during the year / share	-	-	-	7 cents	9 cents
NTA per share	2.15	2.23	2.42	2.70	2.78
NTA per share growth compounded over 3 years	(7)%	(7)%	1%	7%	11%

Notes:
- All figures rounded to the nearest whole number.
- ⁕ 2007 – 2010 S&P Accumulation Index

REVIEW OF FINANCIAL CONDITION

Liquidity and Capital Resources

The Group's debt facilities are adequate to address working capital requirements and stay in business capital expenditure for 2012.

At 31 December 2011 the Group had total drawn down term debt facilities of $390 million, of which $85 million is subject to annual review, $270 million is subject to review on 31 January 2013 and $35 million is subject to review on 31 March 2014.

Prior to year end the Company commenced negotiations to establish a banking syndicate to replace the existing club facility. Negotiations have been completed at the date of this report and commitments have been received from four banks to participate in the syndicate with aggregate committed lines of $450 million, subject to completion of proposed transaction documents in a materially acceptable form. The syndicate has been arranged by National Australia Bank under a mandate provided by the Company. The participating banks will be National Australia Bank (also acts as Agent), Commonwealth Bank, ANZ Bank, and Rabobank. It is anticipated documentation will be formally approved and executed shortly after these accounts are finalised and the new facility will be drawn down once all conditions precedent have been met.

Asset and Capital Structure	**2011 $000**	**2010 $000**
Debts:		
Trade and other payables	25,791	28,601
Current interest-bearing loans and liabilities	56,421	86,626
Non-current interest-bearing loans and borrowings	311,148	270,723
Cash and short-term deposits	(23,369)	(17,045)
Net debt	**369,991**	**368,905**
Total equity	**671,987**	**592,634**
Total capital employed	**1,041,978**	**961,539**
Gearing (debt/debt+equity)	**36%**	**38%**

REVIEW OF FINANCIAL CONDITION (continued)

Dividend Reinvestment Plan

There were no dividends declared or paid in 2011 and therefore the Company's Dividend Reinvestment Plan (DRP) was inactive throughout the year.

Treasury Policies

Interest rates: Management's policies for determining the mix of fixed and floating interest rates are influenced by the undertakings within the banking facilities that stipulate a minimum 50% of the total term debt facilities must be hedged in relation to interest rate movements.

Foreign currency: The Company undertakes forward sales in its Wholesale Beef Group in foreign currency, primarily the US dollar and Japanese yen. All committed forward sales are hedged with foreign exchange contracts to coincide with the expected receipt of foreign funds spread over the year.

The Company commenced application of hedge accounting principles for interest rate swaps during 2011.

Cash from Operations

The cash outflow from operating activities in 2011 was $64.1 million (2010: $48.8 million cash outflow). The 2011 operating cash outflow includes:

- Increased cattle purchases including Tipperary - $31.1 million
- Chefs Partner closure and a decline in Beef Group margins - $9.3 million
- Shipping delays in December due to weather conditions with cash received in January - $12.4 million.

The Group is developing a strategy to monetise the increased herd during 2012 to enable the benefits of the excellent 2011 season to be realised in cash. As a consequence, at the conclusion of the wet season AAco will assess the 2012 seasonal outlook and determine productivity capability for the balance of 2012. This assessment will determine the basis of final herd size and structure for the balance of 2012.

Risk Management and Compliance

The Board has ultimate responsibility for the oversight of risk management and compliance across the Company.

Risk is an integral part of the Company's decision making process and all risks and opportunities are adequately and appropriately assessed, to ensure that unreasonable risk exposures are minimised. The Company's Risk and Compliance Framework ensures that all risks are properly identified and managed, that insurances are adequate and that processes are in place to ensure compliance with regulatory requirements.

The Managing Director/Chief Executive Officer is accountable to the Board for the development and management of the Company's Risk and Compliance Framework and is supported by the Chief Risk Officer, Chief Financial Officer and Company Secretary/General Counsel in terms of adopting appropriate risk management and compliance processes, including regular and transparent reporting to the Board. Each General Manager is responsible for the management of risk.

The key risks identified in the Company's Risk Register are addressed through the Risk and Compliance Framework, reducing risk exposure to key stakeholders.

The Company's Risk and Compliance Framework is based on the following process:

- Board approval of a Strategic Plan, which encompasses the Company's vision and strategic goals, designed to meet the needs of stakeholders.
- As part of the Company's annual strategic planning process, the Risk Management Policy and Plan are reviewed and submitted to the Board for approval. The Risk Register is reviewed and tested in line with changes to the Company's strategy by the Board and senior executive team.
- An Operating Plan is developed each year to translate the Company's long-term strategy into key operational objectives for the following twelve month period.
- Key Performance Indicators for the Managing Director/Chief Executive Officer and other key senior executives upon which they are rewarded are limited to the Company's objectives.
- Performance against the Operating Plan is reported to the Board on a monthly basis. This report provides the Board with the basis to assess if the Company's strategy is being executed effectively and allows the Board to assess management's performance against objectives on a regular basis. A monthly Compliance Report informs the Board of any regulatory, legal or compliance related issues.

REVIEW OF FINANCIAL CONDITION (continued)

Risk Management and Compliance (continued)

During the 2010 financial year the Board commissioned an independent review of the Group's risk management framework. The consultant's review included a re-assessment of the range of risks the Group is exposed to and the design of a new risk management framework. The Board resolved to accept the Risk Management Framework recommended by the review and has commenced to implement the new targeted framework. During 2011, the Board:

- Established the Board Risk Management Committee;
- Appointed a Chief Risk Officer to assist in the implementation of the Board approved risk management framework; and
- Put in place a new risk management framework strategy.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During 2011 total equity increased to $671,987,000 from $592,634,000 (2010), an increase of $79,353,000. The movement was largely the result of increases in ordinary share capital, revaluation reserves and profits. Contributed equity increased by $65,511,000 compared to the prior period as the result of a share placement, shares issued in terms of the share purchase plan and the issue of shares under the Executive Option Plan; refer to note 24 for further information on movements in contributed equity. The gross surplus on the revaluation of property, plant and equipment amounted to $9,543,000 for the period.

During 2011 the Chefs Partner operations were closed due to poor performance. The impact of this discontinued operation was an operating loss before tax of $5.6 million and impairment losses to the Group of $3.1 million.

The Group disposed of the Meteor Downs Station for a cash consideration of $21,585,000 during 2011. The sale of Meteor Downs is part of a process of realigning the Group's property holdings to reflect the ongoing business strategy. Meteor Downs had become a non-core asset.

SIGNIFICANT EVENTS AFTER BALANCE DATE

The Board has approved the Group entering into the lease of 4,876ha of land on a property called Lynora Downs located near Springsure, Queensland. The term is for a period of up to 5 years where each year is renewable at the Group's option. The property will be used for farming and each year's lease payment is determined by water available for each year. The arrangement is subject to mortgagee's consent.

Prior to year end the Company commenced negotiations to establish a banking syndicate to replace the existing club facility. Negotiations have been completed at the date of this report and commitments have been received from four banks to participate in the syndicate with aggregate committed lines of $450 million, subject to completion of proposed transaction documents in a materially acceptable form. The syndicate has been arranged by National Australia Bank under a mandate provided by the Company. The participating banks will be National Australia Bank (also acts as Agent), Commonwealth Bank, ANZ Bank, and Rabobank. It is anticipated documentation will be formally approved and executed shortly after these accounts are finalised and the new facility will be drawn down once all conditions precedent have been met.

There have been no other significant events after the balance date which requires disclosure in the financial report.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

This report otherwise omits information on likely developments and expected future results, the supply of which in the opinion of the Directors, would prejudice the interests of the Group.

ENVIRONMENTAL REGULATION AND PERFORMANCE

Some regulated areas of operation are:

- The operations of Goonoo Feedlot and Aronui Feedlot are regulated by licences issued under the Environmental Protection Act 1994 and administered by the Queensland Department of Employment, Economic Development and Innovation (DEEDI). Each feedlot is required to report to the National Pollution Inventory each year with respect to water, air and soil quality. DEEDI conducts audits of compliance with licence requirements at regular intervals. The Company has notified DEEDI of damage caused to Goonoo station by the record floods in Central Queensland in December 2010. The Company has recorded no breaches of licence requirements in 2011.

ENVIRONMENTAL REGULATION AND PERFORMANCE (continued)

- The pumping of water from the Comet River for irrigation and feedlot use at Goonoo Station is subject to licensing under the Integrated Planning Act 1997 and the Water Act 2000. Regulations specify minimum water flows and heights in the river to allow sufficient environmental flows. Wylarah has a licence to harvest water from the Balonne River for irrigation purposes.

- The pumping of underground water for the prescribed purpose of 'Livestock Intensive' requires licensing and regular reporting and monitoring. The Company has several licences requiring these regulations and conditions to be met.

- Stock watering facilities, which utilise bores, require licensing in Queensland, and registration in the Northern Territory.

- Stock water facilities shared with Queensland Stock Routes are administered by local governments, guided by legislation and framework developed by the Queensland Department of Environment and Resource Management (DERM). Shared water facilities need to comply with revised registered Stock Route water agreement requirements. A permit to occupy is also required if this facility is unfenced within a station grazing area.

- Vegetation Clearing Permits are sought under the Vegetation Management Act 1999 (Queensland) for any clearing required for ongoing operations including but not limited to the development of areas for land use change and the installation of infrastructure such as fence lines and water development.

- The Company continues to be involved in the consultation process for Water Resource Planning and implementation of Wild Rivers legislation in relevant areas (i.e. Channel Country).

- The Company must abide by environmental and other obligations contained in Queensland's State Rural Leasehold Land Strategy in respect of the Company's pastoral leasehold interests in Queensland. The State Rural Leasehold Land Strategy is a framework of legislation, policies and guidelines supporting the environmentally sustainable, productive use of rural leasehold land for agribusiness.

The Board considers the Company has adequate systems in place for the management of its environmental requirements and is not aware of any material breach of those environmental requirements for licence conditions as they apply to the Group.

The Company is aware of the reporting requirements under the National Greenhouse and Energy Reporting Act (the Act). The Company conducted an assessment, which complies with the framework provided by the Department of Climate Change. This assessment concluded the Company's energy consumption and greenhouse gas emissions are below thresholds set for mandatory registration and reporting under the Act. Previously, the Company reported voluntarily under the 'Greenhouse Challenge Plus' (GHC) Program. This program ceased in June 2009, however, the Company continues to collect greenhouse emissions and energy consumption data using the GHC reporting structure.

With respect to the Australian Federal Government's Carbon Scheme which has been substantially enacted as at the date of this report, agriculture has been initially exempted, however the Company will continue to monitor and assess this scheme for risks and opportunities.

SHARE OPTIONS

Unissued Shares

As at the date of this report, there were 4,471,324 unissued ordinary shares under options and performance rights (4,471,324 at reporting date).

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.

Shares Issued as a Result of the Exercise of Options

During the financial year, a former employee exercised 924,000 options to acquire shares in the Company at an issue price of $1.00 per share. Since the end of the financial year, no options have been exercised.

The Board determined during 2010 to replace the option plan with a long term incentive plan that more adequately reflects the current practice in Australia for these types of incentive arrangements. At the Company's Annual General meeting on 11 May 2011, shareholders approved a new Performance Rights Plan, which has taken the place of the option plan for future incentive awards comprising performance rights. There will be no further grants of options under the option plan in the future. The rights of the existing option holders will remain until such time as the options are either exercised or the rights lapse.

INDEMNIFICATION AND INSURANCE OF DIRECTORS' AND OFFICERS

Under the Company's Constitution, each of the Company's Directors, the Company Secretary and every other person who is an officer is indemnified for any liability to the full extent permitted by law.

The Company's Constitution also provides for the Company to indemnify each of the Company's Directors, the Company Secretary and every other person who is an officer to the maximum extent permitted by law, for legal costs and expenses incurred in defending civil or criminal proceedings.

Each Director has entered into a Deed of Access, Insurance and Indemnity, which provides for indemnity against liability as a Director, except to the extent of indemnity under an insurance policy or where prohibited by statute. The Deed also entitles the Director to access Company documents and records, subject to confidentiality undertakings.

The Company maintains Director's and Officer's insurance policies, to insure the Company's Directors, Company Secretary and those Directors and others of its subsidiaries. The Company has paid or has agreed to pay the premium for these policies.

The terms of the insurance contracts prohibit the Company from disclosing the level of premium paid and the nature of the liabilities insured.

.

REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 31 December 2011 outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report details the remuneration arrangements for key management personnel (KMP) of the Group, who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether executive or otherwise) of the parent Company, and includes the five executives in the Parent and the Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the Managing Director/Chief Executive Officer, senior executives, general managers and company secretary of the Company and the Group.

The remuneration report is presented under the following sections:
1. Individual Key Management Personnel (KMP) disclosures.
2. Remuneration at a glance.
3. Board oversight of remuneration.
4. Non-executive Director (NED) remuneration arrangements.
5. Executive remuneration arrangements.
6. Company performance and link to remuneration.
7. Executive contractual arrangements.
8. Equity instruments disclosures.

1. Individual Key Management Personnel disclosures

Details of KMP including the top five remunerated executives of the Company and Group are set out in the following sections.

(i) Directors

Mr. D. McGauchie	Chairman (non-executive)
Mr. D. Farley	Managing Director and Chief Executive Officer
Mr. A. Paliulis	Director (non-executive)
Mr. N. Burton Taylor	Director (non-executive)
Mr. C. Roberts	Director (non-executive)
Dato' Sabri Ahmad (resigned as an alternate director on 26 January 2011 and appointed a director on 4 April 2011)	Director (non-executive)
Mr. S. Black (appointed 5 October 2011)	Director (non-executive)
Mr. D. Crombie (appointed 5 October 2011)	Director (non-executive)
Mr. T. Keene (appointed 5 October 2011)	Director (non-executive)
Mr. I. Allana	Alternate Director

(ii) Directors who resigned or retired during the period

Datuk Dr. Abdul Samad bin Haji Alias (appointed 13 April 2010 and resigned 26 January 2011)	Director (non-executive)

(iii) Executives

Mr. T. Setter	Chief Operating Officer
Mr. P. Beale (appointed on 19 January 2011)	Chief Financial Officer
Mr. B. Bennett	Company Secretary/General Counsel
Mr. G. Dober	General Manager People and Culture
Mr. P. Dempsey	General Manager – Beef Group

(iv) Key Executives who resigned, retired or whose contracts were terminated during the period

Ms. J. Sloman[1] (completed contract 15 April 2011)	Interim Chief Financial Officer

[1] Ms. J. Sloman was contracted to act as Interim Chief Financial Officer from 25 October 2010.

There were no changes to KMP after the reporting date and before the date the financial report was authorised for issue.

REMUNERATION REPORT (AUDITED) (continued)

2. Remuneration at a glance

Remuneration strategy and policy

CEO and Key Management Personnel (KMP)

Consistent with contemporary Corporate Governance standards the Company's remuneration strategy and policies aim to set employee and executive remuneration that is fair, competitive and appropriate for the markets in which it operates and is mindful of internal relativities. The Company will aim to ensure that the mix and balance of remuneration is appropriate to reward fairly, attract, motivate and retain senior executives and other key employees.

Specific objectives of this policy will include the following:

- Provide fair and competitive fixed remuneration for all positions under transparent policies and review procedures. This is tested on a regular basis by independent benchmark assessment;
- Link CEO rewards to shareholder value accretion by providing appropriate equity (or equivalent) incentives linked to long-term Company performance and core values;
- Link senior executive rewards to achieving short and medium term key performance criteria;
- Provide Deferred Equity Awards (DEA) based on key short term objectives but defer vesting subject to service to support retention;
- Provide competitive total rewards to attract and retain high calibre employees and executives;
- Have a meaningful portion of remuneration "at risk", dependent upon meeting pre-determined performance benchmarks, both short term (annual), and long term (3+ years) for the CEO; and
- Establish appropriate, demanding performance hurdles for any executive incentive remuneration.

The broad remuneration policy will be executed by the Company under a Total Targeted Reward framework. Appropriate remuneration policy settings will be achieved by consistently applying a clear remuneration strategy directed at supporting the Board approved business strategy with appropriate and flexible processes, policies and procedures established by the Board from time to time.

This senior executive remuneration strategy can be represented broadly, as follows:

	Total Fixed Remuneration (TFR) %	Short Term Incentives (STI) %[1]	Long Term Incentive (LTI) %	Total Targeted Reward (TTR) %
CEO	50	25	25	100
Key Management	40 - 80	20 - 60	0	100

[1] Includes Deferred Equity Award (DEA) opportunity component

Only the CEO participates in the LTI plan. The Board believes incentives for the other executives are more effective when directed to key annual group and divisional objectives. Equity participation and therefore alignment with shareholders and retention is achieved by deferring a portion of the short term incentive subject to service. For 2012 allocations the deferral will be one and two years in equal proportion. Effective from 2013 the deferral period will be extended to be two and three years in equal proportion.

Board remuneration

The Board seeks to set aggregate remuneration at a level for the non-executive directors that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to the shareholders.

Use of Remuneration Consultants

The Staff & Remuneration Committee has engaged external consultants to ensure it is fully informed when making remuneration decisions. New legislation introduced in 2011 has impacted how companies can seek advice which includes a remuneration recommendation in relation to KMP remuneration. The Board has appointed CRA Plan Managers Pty Limited (CRA) as remuneration advisor to the Company.

The engagement of CRA has been based on an agreed set of protocols to ensure that the Staff & Remuneration Committee is provided with formal advice and recommendations, free from undue influence by members of the KMP to whom the recommendations may relate.

REMUNERATION REPORT (AUDITED) (continued)

2. Remuneration at a glance (continued)

Use of Remuneration Consultants (continued)

CRA have provided advice to the Company covering a range of remuneration, including the following:

- Remuneration Strategy Review;
- Report to the Board in respect of Chief Executive Officer, Chairman, and non-Executive Director Remuneration;
- Report to the Board in respect of Senior Executive remuneration;
- Long term incentives (LTI) and Deferred Equity Award (DEA) benefit recommendations for the CEO (LTI) and senior executives (DEA); and
- Valuation of Share Based Payments.

This independent review confirmed that Board and Executive remuneration at the Company were within market expectations and were reasonable. No material variations were noted and no material changes have been made arising from this review.

3. Board oversight of remuneration

Staff and Remuneration Committee

The Staff and Remuneration Committee currently comprises five independent non-executive Directors (NEDs) (Mr. T. Keene (Committee Chairman), Mr. D. McGauchie, Mr. C. Roberts, Mr. D. Crombie and Mr. N. Burton Taylor) and one non-independent Director (Mr. A. Paliulis).

The Staff and Remuneration Committee is responsible for making recommendations to the Board on the remuneration arrangements of NEDs and executives.

The Staff and Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of NEDs and executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high performing Director and executive team. In determining the level and composition of executive remuneration, the Staff and Remuneration Committee may also seek external advice as set out above.

Mr. D. Farley, Managing Director/Chief Executive Officer, attends certain Staff & Remuneration Committee meetings by invitation but is not present during any discussions relating to his own remuneration arrangements.

Remuneration approval process

The Board is responsible for determining the remuneration of the Managing Director/Chief Executive Officer on the advice of the Staff and Remuneration Committee, which obtains independent remuneration advice as necessary. The Board approves the remuneration arrangements for the Managing Director/Chief Executive Officer and executives and all awards made under any long-term incentive (LTI) plan, which are then subject to shareholder approval, following recommendations from the Staff and Remuneration Committee.

The Board also sets the aggregate remuneration of NEDs, which is then subject to shareholder approval.

The Chairman oversees the Managing Director/Chief Executive Officer's recommendations for remuneration of senior executives with the assistance of the Staff and Remuneration Committee and independent remuneration advice, where necessary.

The Staff and Remuneration Committee approves, having regard to the recommendations made by the Managing Director/Chief Executive Officer, the level of any Company short-term incentive (STI) payments to employees, including KMP's and therefore the amount of any Deferred Equity Award entitlement. The level of STI payments to the Managing Director/CEO are determined separately by the Board. Any DEA entitlement resulting in an issue of securities for the Managing Director/CEO must be approved by shareholders.

REMUNERATION REPORT (AUDITED) (continued)

4. Non-executive Director (NED) remuneration arrangements

Remuneration policy

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually against fees paid to NEDs of comparable companies. The Board considers advice from external consultants when undertaking the annual review process.

The Company's constitution and the ASX Listing Rules specify that the aggregate remuneration of NEDs shall be determined, from time to time, by general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The latest determination was at the Annual General Meeting held on 24 May 2007, when shareholders approved an aggregate remuneration of $875,000 per year.

Structure

The remuneration of NEDs consists of Directors' fees and committee fees. NED's do not receive retirement benefits other than superannuation, nor do they participate in any incentive programs.

Each NED receives a base fee for being a Director of the Company. An additional fee is also paid for each Board committee on which a Director sits, with a higher fee paid if the Director is a Chairman of a Board committee. The payment of additional fees for serving on a committee recognises the additional time commitment required by NEDs who serve on one or more committees.

NED's are encouraged to hold shares in the Company. Any shares purchased by the Directors are purchased on market, which is in line with the Group's overall remuneration philosophy and aligns NEDs with shareholder interests.

The remuneration of NEDs for the years ended 31 December 2011 and 31 December 2010 is detailed in table 1 of this report.

5. Executive remuneration arrangements

Structure

Remuneration is determined as part of an annual performance review process, having regard to market factors, relevant comparative data, a performance evaluation process and independent remuneration advice, where necessary.

In the 2011 financial year, the executive remuneration framework consisted of the following components:
- Fixed remuneration; and
- Variable or 'at risk' remuneration comprising:
  - STI including the Deferred Equity Award (DEA); and
  - LTI for the Managing Director/CEO only.

The Company currently grants Performance Rights, subject to shareholder approval as a Long Term Incentive to the Managing Director/Chief Executive Officer. Deferred Equity Awards are provided to Senior Executives based on the level of STI earned each year. The DEA is granted as Performance Rights and subject to one (50%) and two (50%) year service vesting conditions. The last offer under this plan was made on 5 August 2011.

There is also a tax exempt share plan that may be utilised at the discretion of the Board for general employee equity participation. An Executive Option Plan, for which no further grants will be made, has a series of grants outstanding, the last of which expires on 1 January 2019.

The Board reviewed the incentive arrangements for executives and the Managing Director/CEO in the current period.

The Company encourages its executives to own the Company's shares, to further align their interests with the interests of other shareholders.

REMUNERATION REPORT (AUDITED) (continued)

5. Executive remuneration arrangements (continued)

The following table illustrates the structure of the Company's executive remuneration arrangements in 2011:

Remuneration Component	Vehicle	Purpose	Link to performance
Total fixed remuneration (TFR).	Comprises base salary, superannuation contributions and any 'packaged' benefits including FBT grossed-up on a Total Employment Cost (TEC) basis.	To reward executives market competitive remuneration with reference to role, market and experience and internal relativities.	No link to Company performance although it is reviewed annually and consideration is given to the performance of the Company and business unit.
Short term incentive (STI) component.	Paid in cash and Deferred Equity.	Rewards executives for their contribution to achievement of Company and business unit outcomes, as well as individual key performance indicators (KPIs).	STI is calculated based on 50% Company performance where Profit after Tax is the key financial metric and 50% performance linked to relevant performance across internal measures of Financial, Safety, Compliance, and Operational drivers.
Long term incentive (LTI) component. (CEO only)	Performance rights.	To reward the CEO if the Company outperforms over the vesting period to align the CEO to shareholders and for retention purposes.	Both internal (EPS) and external (TSR) measures are applied as detailed below.

Total fixed remuneration

Executive contracts of employment do not include any guaranteed base pay increases. Total fixed remuneration comprises cash and other benefits and entitlements to provide a base level of remuneration which is both appropriate to the role and responsibilities, reflects current market conditions, the individuals seniority and internal relativities.

Total fixed remuneration is reviewed annually, as part of a review that takes into account the individual's performance, the overall performance of the Company in the case of the executives, the relevant business unit's performance in the case of business unit executives, and current comparative remuneration data.

Senior executives are given the opportunity to receive a portion of their fixed remuneration in forms other than cash, such as motor vehicles, under a framework that ensures the Company does not incur additional cost.

The fixed component of executives' base fixed remuneration is detailed in the tables 1 and 2.

Variable remuneration - short term incentive (STI)

The Company operates an annual STI program that is available to executives and employees and awards a cash bonus subject to the attainment of Company, business unit and individual measures which are set at the commencement of the performance period.

The aim of the STI is to link the achievement of the Company's annual and/or immediate financial and broader operational targets with the remuneration received by the executives and senior employees responsible for achieving those targets.

The total potential STI is set at a level so as to provide sufficient incentive to executives to achieve the operational targets and at a cost to the Company that is reasonable in the circumstances.

Actual STI payments awarded to each executive depend on the extent to which specific targets prescribed in the performance agreement for a financial year are met. The targets consist of a number of key performance indicators covering both financial and non-financial, corporate and individual measures of performance. Individual key result areas include contribution to earnings and net profit after tax, safety and risk management, compliance, and business unit specific operational measures.

These measures were chosen as they represent the key drivers for the short term success of the business and provide a framework for delivering long-term value.

REMUNERATION REPORT (AUDITED) (continued)

5. Executive remuneration arrangements (continued)

Variable remuneration - short term incentive (STI) (continued)

Under the arrangements approved by the Board the general principles that will apply are that the executive will receive a Short Term cash Incentive and be granted a Deferred Equity Award that is generally set at 50%, subject to existing contractual conditions, of the Short Term cash Incentive earned. The Short Term cash Incentive will be paid within 3 months of the financial year end on which the executive's performance is being measured.

The Deferred Equity Award vests over the 2 years after the year the Short Term cash incentive is paid. The policy is that the Short Term cash Incentive will be determined and 50% of the Short Term cash Incentive will be granted as a Deferred Equity Award for which half vests 12 months after the payment of the Short Term cash incentive and the remaining half 24 months after the payment of the Short Term cash incentive. Vesting of the DEA is subject to the executive still being employed by the Group.

The Company has a Good Leaver and a Bad Leaver Policy. If the executive was a Bad Leaver, then any unvested Deferred Equity Awards will be automatically forfeited. If the executive was a Good Leaver, then the Board will consider the circumstances of the cessation of employment and may exercise its discretion to allow some of all of the unvested Deferred Equity Awards to vest (and be exercised).

The Board assesses the performance of the Managing Director/Chief Executive Officer against his targets and determines his actual STI payment based upon the recommendation of the Staff and Remuneration Committee. The Managing Director has a maximum STI of $300,000 in his existing contract. The senior executives have a maximum STI set as a percentage of their respective TFR.

The Managing Director/Chief Executive Officer assesses the performance of other senior executives against their targets and determines the actual short term incentive payments with oversight by the Board through the Chairman and the Staff and Remuneration Committee.

STI bonus for 2011

An accrual has been taken up in these financial statements for the 2011 STI cash bonus that will be paid in 2012. The STI awards have not been determined at an individual executive level until after 31 December 2011 and prior to these accounts being signed.

The following table outlines the proportion of maximum STI that was earned and forfeited in relation to the 2010 financial year.

Name	Proportion of maximum STI earned in FY10	Proportion of maximum STI forfeited in FY10
D. Farley	100%	-
T. Setter	45%	55%
B. Bennett	72%	28%
P. Dempsey	60%	40%
G. Dober	51%	49%

Variable remuneration - long term incentive (LTI)

Only the Managing Director/CEO is currently offered an LTI. Board approved Performance Right grants are also subject to shareholder approval, as set out below.

The Managing Director/Chief Executive Officer

The Board has contractually determined a LTI entitlement equal to 50% of current total fixed remuneration for the Managing Director/Chief Executive Officer. Performance rights equal to this remuneration value are provided each year under the AACo Performance Rights Plan on terms approved by shareholders each year.

Under the LTI there are both internal (EPS) and external (TSR) performance benchmarks which are required to be achieved over a 3 year service vesting period for the Managing Director/Chief Executive Officer to receive any benefit. These benchmarks and the vesting for each year's offer are set out below. An allocation for 2012 will be presented to shareholders at the March 2012 AGM on similar terms.

REMUNERATION REPORT (AUDITED) (continued)

5. Executive remuneration arrangements (continued)

Variable remuneration - long term incentive (LTI) (continued)

The following grants were made to the Managing Director/Chief Executive Officer during 2011 and were approved by shareholders at the 2011 Annual General Meeting.

Relevant Year	Share Price at grant date (per share)	Number of Performance Rights Granted	Vesting
2010	$1.41	210,541	The earlier of 31 March 2013 or the issue to shareholders of the 31 December 2012 audited Annual Report
2011	$1.41	199,482	The earlier of 31 March 2014 or the issue to shareholders of the 31 December 2013 audited Annual Report

The performance conditions were as follows:

1. External Performance Condition (TSR outperformance)

50% of the Performance Rights are subject to an external Performance Condition, namely, AAco's Total Shareholder Return (TSR) performance relative to the S&P/ASX Small Ordinaries Accumulation Index (ASX Code: XSOAI) measured over a three year Vesting Period.

Vesting of the Performance Rights subject to the TSR outperformance condition will be calculated based on the following percentile results in the table below:

AAco TSR Ranking versus S&P/ASX Small Ords Accumulation Index (XSOAI)	% of Performance Rights to vest.
Below the 50th percentile	0% vest
At the 50th percentile	50% vest
Between the 50th and 75th percentile	2% vesting on a straight line interpolation for each percentile ranking
At or above the 75th percentile	100% vest

The Company's TSR will be measured by an independent third party over the Vesting Period. The testing of the TSR outperformance condition will occur at the end of the Vesting Period.

2. Internal Performance Condition (EPS)

50% of the Performance Rights are subject to an internal Performance Condition based on the Company's earnings per share (EPS).

EPS is defined as Adjusted Net after Tax Profit per Ordinary Share, where Adjusted Net after Tax Profit is calculated as follows:

- **Annual reported Net Profit after Tax**
- **Less**: Valuation adjustments
- **Less**: any adjustment deemed fair and appropriate by the Board, in the Board's absolute discretion.

The Board in its absolute discretion may vary this formula from year to year to reflect the changing nature of the Group's operations and its operating environment.

Vesting of the Performance Rights subject to the EPS condition will be calculated based on the following compound % growth rates over the three financial years following the base year the Performance Rights are established.

EPS Compound Growth Rate	% of Performance Rights to vest.
Compound growth rate of less than 7.5% p.a.	0% vest
Compound growth rate of at least 7.5% p.a.	50% vest
Compound growth rate between 7.5% p.a. and 10% p.a.	2% vesting on a straight line interpolation for each 0.1% increment in EPS.
Compound growth rate of 10% p.a. or more	100% vest

REMUNERATION REPORT (AUDITED) (continued)

5. Executive remuneration arrangements (continued)

Variable remuneration - long term incentive (LTI) (continued)

Termination and change in control provisions

Under the terms of the LTI if the Managing Director/Chief Executive Officer ceases employment with the Company and holds Performance Rights, the ability of the Managing Director/Chief Executive Officer to retain his Performance Rights will depend on the circumstances in which the employment ceases. The Plan Rules define Bad Leavers and Good Leavers.

If the executive was a Bad Leaver, then the Performance Rights will be automatically forfeited. If the executive was a Good Leaver, then the Board will consider the circumstances of the cessation of employment and may exercise its discretion to allow some or all of the Performance Rights to vest (and be exercised).

A change of control event occurs when any person, either alone or together with any "associate" (as defined in the Australian Corporations Act) who does not hold a relevant interest in more than 50% of the issued shares of the Company acquires a relevant interest in more than 50% of the issued shares, or the Board concludes that there has been a change in control of the Company then one of the following will occur in respect of all unvested Performance Rights or Deferred Equity Awards. The Performance Rights or Deferred Equity Awards will vest on a pro-rata basis or at the discretion of the Board in certain circumstances.

Executive Option Plan – LTI plan used by AAco up to 30 June 2009

The Company previously utilised an Executive Option Plan (EOP) for the granting of non-transferable options to executives and middle management with more than twelve months' service at the grant date.

The existing options under the EOP have all vested. An employee whose employment terminates prior to the vesting of any tranche will lose their unvested option entitlement, unless otherwise determined by the Board.

There were no options granted in 2011 under the EOP and the Board does not intend to make further grants under this scheme.

Under the EOP where a participant ceases employment prior to the vesting of their award, the options are forfeited unless the Board applies its discretion to allow vesting at or post cessation of employment in appropriate circumstances.

In the event of a takeover or change in control of the Company:

(a) 50% of unvested options made within the last three years prior to the change in control, would vest, as soon as the Board forms the opinion that the takeover or change in control will occur; and

(b) all or part of the other 50% of the unvested options made within the last three years may be vested by the Board as determined in its absolute discretion.

Tax exempt share plan

All Company and Group employees paid under $50,000 are eligible to be issued fully paid shares to the value of $1,000 p.a. under the Tax-exempt Employee Share Plan (TESP). An employee must have been employed by the Group for 12 months to be eligible in the following year.

There were no shares issued under the TESP in 2010 or 2011.

Hedging of equity rewards

The Company prohibits employees from entering into arrangements to protect the value of unvested LTI awards. The prohibition includes entering into any scheme, arrangement or agreement (including options and derivatives) under which the employee may alter the economic benefit/risk derived from security holdings in the Company under unvested entitlements (e.g. unvested equity-based incentive or award grant).

No Director or officer or employee may deal in Company shares at any time for short term gain, including buying and selling shares in a three month period or using forward contracts, without approval of the Chairman, or in the case of the Chairman, a Director chosen by the Board for that purpose.

REMUNERATION REPORT (AUDITED) (continued)

6. Company performance and link to remuneration

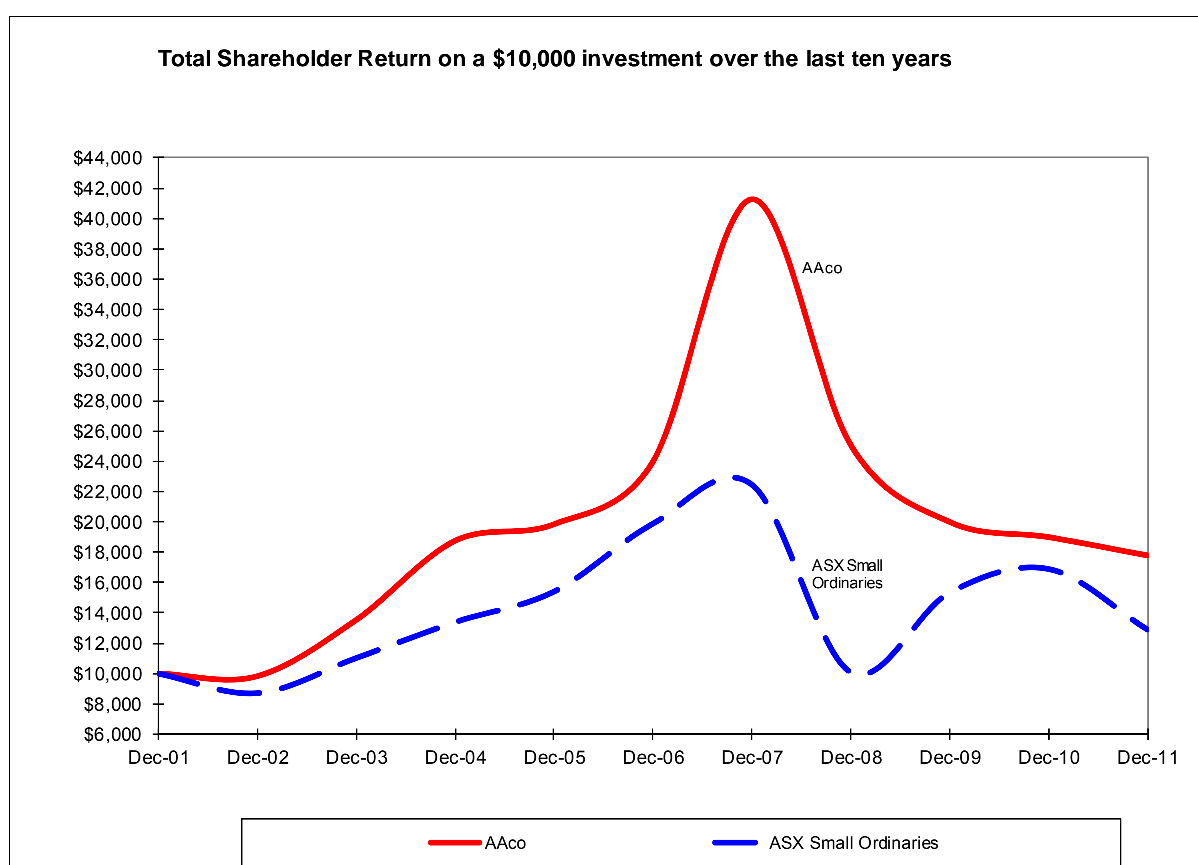
Company performance and its link to long-term incentives

Earnings per share (EPS) on an annual calendar year basis are noted in the table below:

PER SHARE STATISTICS	2011	2010	2009	2008	2007
Basic EPS (to the nearest 1/10 cent)	3.6 cents	0.3 cents	(20.3) cents	(15.0) cents	1.5 cents

The financial performance measure driving LTI payment outcomes is total shareholder return (TSR). TSR for the Company is defined as share price growth plus dividends, assuming the dividends are reinvested into the Company's ordinary shares.

As a guide to TSR, the graph below demonstrates the shareholder wealth created over the last five years, as compared with the benchmark S&P300 Accumulation Index.



Series 1 = The Company total shareholder return.
Series 2 = S&P ASX small ordinaries.

7. Executive contractual arrangements

Remuneration arrangements for KMP are formalised in employment agreements. Details of these contracts are provided below.

Group employees are employed by the subsidiary companies, A.A. Company Pty Ltd and Chef's Partner Pty Ltd. Until the closure of Chef's Partner during 2011 the employees of Chef's Partner were employed by Chef's Partner Pty Ltd.

REMUNERATION REPORT (AUDITED) (continued)

7. Executive contractual arrangements (continued)

Managing Director/Chief Executive Officer

The Managing Director/Chief Executive Officer is employed under an executive service agreement. The agreement has no fixed term and provides that:

- The Managing Director/Chief Executive Officer may terminate his employment by giving six months written notice. No STI's or LTI's will apply to any financial year during which employment ceases and the treatment of LTI options previously issued will be determined at the Board's discretion.
- The Company may terminate the Managing Director/Chief Executive Officer's employment by six months written notice or provide payment in lieu of the notice period based on the Managing Director/Chief Executive Officer's fixed component plus a variable component in recognition that termination during a financial year affects the ability to earn a performance incentive during that year. The treatment of LTI options previously issued will be determined at the Board's discretion.
- The Company may summarily terminate the Managing Director/Chief Executive Officer's employment if serious misconduct has occurred.

Managing Director/Chief Executive Officer - Mr. D. Farley

Mr. D. Farley was appointed Managing Director/Chief Executive Officer on 1 December 2009.

Under the terms of the present contract:

- The Managing Director/Chief Executive Officer receives fixed remuneration of $660,000 per annum.
- The Managing Director/Chief Executive Officer's STI opportunity is a cash bonus up to a maximum of $200,000 per annum plus a DEA of 50% of the cash bonus awarded in any year as performance rights. The terms of this DEA are the same as for the KMP's. This means that two thirds of the total STI award for any year will be paid in cash and one third as a DEA.
- The Managing Director/Chief Executive Officer will be entitled to an LTI benefit up to a maximum of 50% of fixed remuneration.
- After cessation of employment the Managing Director/Chief Executive Officer will be restrained from participating in a business in competition with the Company, in the beef trade industry and soliciting Company staff for the 12 month period from termination date.
- For a period of twelve months after employment ends, the Managing Director/Chief Executive Officer may not engage in business dealings with a customer or supplier of the Group with whom the Managing Director/Chief Executive Officer has had work related dealings during the previous six months with a view to causing the person to cease doing business or reduce the amount of business which the person would normally do with the Group.

The Managing Director/Chief Executive Officer's termination provisions are as follows:

	Notice period	Payment in lieu of notice	Treatment of STI on termination	Treatment of LTI on termination
Employer-initiated termination	6 months	Part or all of 6 months	Not eligible	Unvested portion terminates
Termination for serious misconduct	Nil	Nil	Not eligible	Unvested portion terminates
Employee-initiated termination	6 months	Part or all of 6 months	Not eligible	Unvested portion terminates

The Board has the discretion to determine that some or all of any unvested performance rights granted vest or cease to be restricted; or lapse or are deemed to be forfeited.

REMUNERATION REPORT (AUDITED) (continued)

7. Executive contractual arrangements (continued)

Other Key Management Personnel

The executive service agreement for other senior executives generally reflect that of the Managing Director/Chief Executive Officer.

Standard Key Management Personnel termination provisions are as follows:

	Notice period	Payment in lieu of notice	Treatment of STI on termination	Treatment of unvested options granted under EOP upon termination
Employer-initiated termination	6 months	Part or all of 6 months	Not eligible	(Employer initiated other than redundancy) - Vested Options may be exercised within 3 months. Unvested options lapse except at Board discretion
Termination for serious misconduct	Nil	Nil	Not eligible	Vested Options may be exercised within 3 months. Unvested options lapse except at Board discretion
Employee-initiated termination	3 to 6 months	Part or all of 3 to 6 months	Not eligible	Vested Options may be exercised within 6 months. Unvested options lapse except at Board discretion

REMUNERATION REPORT (AUDITED) (continued)

Remuneration of Key Management Personnel and the five highest paid Executives of the Company and the Group

Table 1: Directors

	Short Term			**Post-Employment**	**Share based payment**	**Termination**	**Total**	**Performance Related**
	Salary & Fees	Cash Bonus (under STI)[9]	Non-Monetary Benefits	Super-annuation	Performance Rights (under LTI)	Termination Benefits		
Directors	$	$	$	$	$	$	$	%
Non-executive Directors								
D. McGauchie[1]								
31/12/2011	189,280	-	-	17,100	-	-	206,380	-
31/12/2010	79,451	-	1,980	7,086	-	-	88,517	-
N. Burton Taylor								
31/12/2011	104,723	-	-	9,425	-	-	114,148	-
31/12/2010	119,138	-	-	10,723	-	-	129,861	-
A.P. Paliulis								
31/12/2011	82,764	-	-	7,449	-	-	90,213	-
31/12/2010	70,474	-	-	6,342	-	-	76,816	-
C.I. Roberts								
31/12/2011	99,008	-	-	8,911	-	-	107,919	-
31/12/2010	74,074	-	-	6,667	-	-	80,741	-
Dato’ Sabri Ahmad[2]								
31/12/2011	52,391	-	-	4,715	-	-	57,106	-
31/12/2010	-	-	-	-	-	-	-	-
S. Black[3]								
31/12/2011	20,731	-	-	1,866	-	-	22,597	-
31/12/2010	-	-	-	-	-	-	-	-
D. Crombie[3]								
31/12/2011	23,772	-	-	2,139	-	-	25,911	-
31/12/2010	-	-	-	-	-	-	-	-
T. Keene[3]								
31/12/2011	23,964	-	-	2,157	-	-	26,121	-
31/12/2010	-	-	-	-	-	-	-	-
I. Allana[4] (alternate)								
31/12/2011	-	-	-	-	-	-	-	-
31/12/2010	-	-	-	-	-	-	-	-
Executive Directors								
D. Farley								
31/12/2011	605,505	183,486	-	71,009	71,950[8]	-	931,950	27.41
31/12/2010	550,458	-	-	49,542	-	-	600,000	-
Former Directors								
Datuk Abdul Samad[5]								
31/12/2011	5,469	-	-	492	-	-	5,961	-
31/12/2010	54,418	-	-	4,898	-	-	59,316	-
S.E. Lonie[6]								
31/12/2011	-	-	-	-	-	-	-	-
31/12/2010	55,042	-	-	5,319	-	-	60,361	-
P. Hughes[7]								
31/12/2011	-	-	-	-	-	-	-	-
31/12/2010	29,782	-	-	2,680	-	-	32,462	-
Total Remuneration: Directors								
31/12/2011	1,207,607	183,486	-	125,263	71,950	-	1,588,306	16.11
31/12/2010	1,032,837	-	1,980	93,257	-	-	1,128,074	-

[1] D. McGauchie was appointed on 19 May 2010.

[2] Dato’ Sabri Ahmad was appointed alternate Director on 22 November 2010 and resigned on 26 January 2011. On 4 April 2011 Dato’ Sabri Ahmad was appointed a Director.

[3] D. Crombie, T. Keene and S. Black were appointed on 5 October 2011.

[4] L. Allana was appointed alternate Director on 22 November 2010.

[5] Datuk Abdul Samad was appointed on 13 April 2010 and resigned on 26 January 2011.

[6] S.E. Lonie was appointed on 28 April 2009 and resigned on 13 April 2010.

[7] P. Hughes was appointed on 28 April 2009 and resigned on 19 May 2010.

[8] $71,950 granted in 2011. However $44,184 was granted in respect of the 2010 year.

[9] The cash bonus paid is in relation to the 2010 year and does not include the 2011 cash bonus.

REMUNERATION REPORT (AUDITED) (continued)

Remuneration of Key Management Personnel and the five highest paid Executives of the Company and the Group (continued)

Table 2: Other Key Management Personnel

	Short Term			**Post-Employment**	**Long term benefits**	**Share-based payment**	**Termination**	**Total**	**Performance Related**
Other Key Management Personnel	Salary & Fees	Cash Bonus (under STI)[9]	Non-Monetary Benefits	Super-annuation	Long service leave	Performance Rights (under STI) & Options[8/10]	Termination Benefits		
	$	$	$	$	$	$	$	$	%
Current									
T. Setter[1]									
31/12/2011	269,018	77,298	16,800	31,168	-	14,714	-	408,998	22.50
31/12/2010	162,360	-	9,901	15,495	-	-	-	187,756	-
P. Beale[2]									
31/12/2011	364,193	-	-	50,566	-	-	-	414,759	-
31/12/2010	-	-	-	-	-	-	-	-	-
B. Bennett									
31/12/2011	264,526	55,376	-	28,791	-	10,614	-	359,307	18.37
31/12/2010	256,880	-	-	23,120	-	3,998	-	283,998	1.41
P. Dempsey									
31/12/2011	204,002	33,389	-	52,103	-	6,356	-	295,850	13.43
31/12/2010	195,286	-	-	48,314	-	4,882	-	248,482	1.96
G. Dober[3]									
31/12/2011	170,584	16,690	-	16,855	-	3,177	-	207,306	9.58
31/12/2010	118,448	-	-	10,660	-	-	-	129,108	-
Former									
J. Sloman[4]									
31/12/2011	88,461	-	-	11,340	-	-	9,785	109,586	-
31/12/2010	55,769	-	-	3,800	-	-	-	59,569	-
K. Parker[5]									
31/12/2011	-	-	-	-	-	-	-	-	-
31/12/2010	250,193	-	-	21,563	-	-	-	271,756	-
T. Gallagher[6]									
31/12/2011	-	-	-	-	-	-	-	-	-
31/12/2010	129,904	-	11,866	16,254	44,875	(8,628)	44,177	238,448	(3.62)
A. Jones[7]									
31/12/2011	-	-	-	-	-	-	-	-	-
31/12/2010	215,068	-	2,073	26,293	-	(8,418)	156,969	391,985	(2.15)
Total Remuneration: Other KMP									
31/12/2011	1,360,784	182,753	16,800	190,823	-	34,861	9,785	1,795,806	12.12
31/12/2010	1,383,908	-	23,840	165,499	44,875	(8,166)	201,146	1,811,102	(0.45)

[1] T. Setter was appointed Chief Operating Officer on 7 April 2010.
[2] P. Beale was appointed CFO on 19 January 2011.
[3] G. Dober was appointed General Manager People and Culture on 27 April 2010.
[4] J. Sloman was appointed interim CFO on 25 October 2010 and resigned on 15 April 2011.
[5] K. Parker was appointed CFO on 1 December 2009 and resigned on 12 November 2010.
[6] T. Gallagher resigned on 17 August 2010.
[7] A. Jones resigned on 10 December 2010.
[8] Negative option remuneration relates to options forfeited during the year.
[9] The cash bonus paid is in relation to the 2010 year and does not include the 2011 cash bonus.
[10] Options issued in 2010 under a previous plan.

REMUNERATION REPORT (AUDITED) (continued)

8. Equity instrument disclosures

During 2011 the Group introduced a performance rights plan and 497,917 rights were granted during 2011. There were no options granted during the period.

Performance Rights awarded and vested during the year (Consolidated):

Terms and Conditions for each Grant during the year								Rights vested during the year	
31 December 2011	Rights awarded during the year No.	Award date	Fair value per rights at award date ($)	Exercise price ($)	Expiry date	First exercise date	Last exercise date	No.	%
Executive directors									
D. D. Farley Issue 1	210,541	19/09/2011	1.13	-	30/04/2013	31/03/2013	31/03/2013	-	-
D. D. Farley Issue 2	199,482	19/09/2011	1.24	-	30/04/2014	31/03/2014	31/03/2014	-	-
Other key management personnel									
B. Bennett	20,844	19/09/2011	1.41	-	30/04/2012 to 2013	31/03/2012	31/03/2013	-	-
P. Dempsey	12,481	19/09/2011	1.41	-	30/04/2012 to 2013	31/03/2012	31/03/2013	-	-
G. Dober	6,239	19/09/2011	1.41	-	30/04/2012 to 2013	31/03/2012	31/03/2013	-	-
T. Setter	28,894	19/09/2011	1.41	-	30/04/2012 to 2013	31/03/2012	31/03/2013	-	-
Total	478,481							-	-

There were no alterations to the terms and conditions of performance rights and options granted as remuneration since their grant date.

There were no shares issued to key management personnel in relation to performance rights and on the exercise of options during the period.

DIRECTORS' MEETINGS (UNAUDITED)

The number of Meetings of Directors (including meetings of Committees of Directors) held during the year and the number of meetings attended by each Director is as follows:

	Directors' meetings		Audit Committee		Staff and Remuneration Committee		Risk Management Committee		Nomination Committee	
	A	B	A	B	A	B	A	B	A	B
Mr. D. McGauchie	15	15	7	7	3	3	7	7	2	2
Mr. D. Farleyβ	15	15	7	7	3	3	7	6	2	2
Mr. A. Paliulis*	15	11	-	-	3	2	7	6	2	2
Mr. N. Burton TaylorΩ	15	14	7	7	3	3	-	-	2	2
Mr. C. Roberts	15	12	7	4	3	2	-	-	2	2
Dato' Sabri Ahmad (appointed 4 April 2011)	13	5	-	-	-	-	-	-	-	-
Mr. T Keene (appointed 5 October 2011)	3	3	*	1	1	1	2	2	1	1
Mr. D Crombie (appointed 5 October 2011)	3	3	1	1	1	1	*	1	1	1
Mr. S Black (appointed 5 October 2011)	3	3	1	1	*	1	*	1	1	1
Alternate Directors										
Mr. I. Allana (appointed 22 November 2010)	15	Nil	-	-	-	-	-	-	-	-
Dato' Sabri Ahmad (appointed 22 November 2010 and resigned 26 January 2011)	Nil	Nil	-	-	-	-	-	-	-	-

A = Number of meetings held during the time the Director held office or was a member of the committee during the year
B = Number of meetings attended

* Not a member of the relevant committee
Ω Sought and was granted leave of absence for one Directors' meeting
β Mr Farley is invited to all Committee meetings but as an executive is not a member of those Committees

Committee membership

As at the date of this report, the Company had an Audit Committee, Staff and Remuneration Committee, a Risk Management Committee and a Nomination Committee.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

ERNST & YOUNG

1 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
www.ey.com/au

Auditor's Independence Declaration to the Directors of Australian Agricultural Company Limited

In relation to our audit of the financial report of Australian Agricultural Company Limited for the financial year ended 31 December 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Mike Reid
Partner
Brisbane
31 January 2012

Liability limited by a scheme approved
under Professional Standards Legislation

Directors’ Report (continued)

NON AUDIT SERVICES

The following non-audit services were provided by the entity’s auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	2011	2010
	$	$
Assurance related	-	3,630
Advisory services	27,500	-
Tax related advice	11,330	-
	38,830	3,630

Signed in accordance with a resolution of the Directors

Donald McGauchie
Chairman

Brisbane
31 January 2012

The Board is responsible for establishing the corporate governance framework of the Group having regard to the ASX Corporate Governance Council (CGC) published guidelines as well as its corporate governance principles and recommendations. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summarises the Company's compliance with the CGC's recommendations as at the date of this report.

Recommendation		Comply Yes / No	Reference / Explanation	ASX Listing Rule (LR) /CGC Recommendation
Principle 1 - Lay solid foundations for management and oversight				
1.1	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Yes	Page 33	*ASX CGC 1.1*
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Refer to remuneration report	*ASX CGC 1.2*
1.3	Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes		*ASX CGC 1.3*

Recommendation		Comply Yes / No	Reference / Explanation	ASX LR / Recommendation
Principle 2 - Structure the Board to add value				
2.1	A majority of the Board should be independent Directors. ** Meaning as at the date of this report but not for the full year.*	Yes*	Page 34	*ASX CGC 2.1*
2.2	The chair should be an independent Director.	Yes	Page 34	*ASX CGC LR 2.2*
2.3	The roles of chair and chief executive officer (CEO) should not be exercised by the same individual.	Yes	Page 34	*ASX CGC 2.3*
2.4	The Board should establish a Nomination Committee.	Yes	Page 37	*ASX CGC 2.4*
2.5	Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.	Yes	Page 35	*ASX CGC 2.5*
2.6	Companies should provide the information indicated in the guide to reporting on Principle 2.	Yes		*ASX CGC 2.6*

Recommendation	Comply Yes / No	Reference / Explanation	ASX LR /CGC Recommendation
Principle 3 - Promote ethical and responsible decision-making			
3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to: • The practices necessary to maintain confidence in the Company's integrity; • The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and • The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes	Website	*ASX CGC 3.1*
3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measureable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.	Yes	Page 36	*ASX CGC 3.2*
3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	No	Page 36	
3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Yes	Page 36	
3.5 Companies should provide the information indicated in the guide to reporting on Principle 3.	Yes	Page 36	*ASX CGC 3.3*

Recommendation	Comply Yes / No	Reference / Explanation	ASX LR /CGC Recommendation
Principle 4 - Safeguard integrity in financial reporting			
4.1 The Board should establish an Audit Committee.	Yes	Page 37	*ASX CGC 4.1*
4.2 The Audit Committee should be structured so that it: • Consists only of non-executive Directors. • Consists of a majority of independent Directors. • Is chaired by an independent chair, who is not chair of the Board. • Has at least three members.	Yes	Page 37	*ASX CGC 4.2* *ASX LR 12.7*
4.3 The Audit Committee should have a formal charter.	Yes	Page 37	*ASX CGC 4.3*
4.4 Companies should provide the information indicated in the Guide to reporting on Principle 4.	Yes	Page 37 and Website	*ASX CGC 4.4*

Recommendation	Comply Yes / No	Reference / Explanation	ASX LR /CGC Recommendation
Principle 5 - Make timely and balanced disclosure			
5.1 Companies should establish written policies designed to ensure compliance with ASX listing rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	Website	*ASX CGC 5.1*
5.2 Companies should provide the information indicated in the guide to reporting on Principle 5.	Yes	Page 40	*ASX CGC 5.2*

Recommendation	Comply Yes / No	Reference / Explanation	ASX LR /CGC Recommendation
Principle 6 - Respect the rights of shareholders			
6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Page 40	*ASX CGC 6.1*
6.2 Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes		*ASX CGC 6.2*

Recommendation	Comply Yes / No	Reference / Explanation	ASX LR /CGC Recommendation
Principle 7 - Recognise and manage risk			
7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Page 37	*ASX CGC 7.1*
7.2 The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Yes	Page 37	*ASX CGC 7.2*
7.3 The Board should disclose whether it has received assurance from the Chief Executive Officer (CEO) [or equivalent] and the Chief Financial Officer (CFO) [or equivalent] that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks	Yes	Page 39	*ASX CGC 7.3*
7.4 Companies should provide the information indicated in the guide to reporting on Principle 7.	Yes	Page 39 and website	*ASX CGC 7.4*

Recommendation	Comply Yes / No	Reference / Explanation	ASX LR /CGC Recommendation
Principle 8 – Remunerate fairly and responsibly			
8.1 The Board should establish a Remuneration Committee.	Yes	Page 39	*ASX CGC 8.1*
8.2 The Remuneration Committee should be structured so that it: • Consists of a majority of independent directors; • Is chaired by an independent chair; and • Has at least three members.		Page 39	
8.3 Companies should clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives.	Yes	Refer to remuneration report	*ASX CGC 8.2*
8.4 Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes	Page 39 and website	*ASX CGC 8.3*

The Company's corporate governance practices were in place throughout the year ended 31 December 2011, except to the extent as may be noted in this statement.

Various corporate governance practices are discussed within this statement. For further information on the corporate governance policies adopted by the Company, refer to our website: www.aaco.com.au.

Board Functions

The Board is responsible to the Company's shareholders for the overall governance and performance of the Company.

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of Directors and for the operations of the Board.

The responsibility for the operation and administration of the Group is delegated, by the Board, to the Managing Director/CEO and the executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the CEO and the executive management team.

Whilst at all times the Board retains full responsibility for guiding and monitoring the Group, in discharging its stewardship it makes use of Board committees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the Board. The Chairman of each committee reports on any matters of substance at the next full Board meeting and all committee minutes are provided to the Board. There are currently four Board committees:

- Audit
- Staff and Remuneration
- Nomination
- Risk Management

The roles and responsibilities of these committees are discussed throughout this corporate governance statement.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including:

- Board approval of a strategic plan designed to meet stakeholders' needs and manage business risk.
- Ongoing development of the strategic plan and approving initiatives and strategies designed to ensure the continued growth and success of the entity.
- Implementation of budgets by management and monitoring progress against budget – via the establishment and reporting of both financial and non-financial key performance indicators.

Other functions reserved to the Board include:

- Approval of the annual and half-yearly financial reports.
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures.
- Ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored.
- Reporting to shareholders.

The matters which are reserved for the Board are contained in the Board's Charter, which is available on the Company's website.

Structure of the Board

The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the annual report are included in the Directors' Report.

The Board is currently comprised of nine Directors, six of whom are determined by the Board to be independent. AAco's Chairman, Donald McGauchie, is an independent director.

It is the Board's responsibility to assess and monitor the independence of Directors, as required under the ASX Corporate Governance Principles and Recommendations ('CGPR') published by the ASX Corporate Governance Council.

Under the Company's Board Charter, the Board will determine whether or not a Director is independent. For the purposes of making a determination as to whether a Director is independent the Board will consider, amongst other things, whether or not the Director:

- Is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- Within the last three years has been employed in an executive capacity by the Company or one of its subsidiary companies;
- Has been in the last three years, a principal of a material professional adviser or a material consultant to the Company or other member of the Group, or an employee materially associated with the service provided;
- Is affiliated with a material customer or supplier of the Company or other member of the Group, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

In accordance with the guidelines above, the following Directors of the Company during the period were determined to be independent.

Mr. D. McGauchie	Chairman, Non-executive Director	Appointed 19 May 2010
Mr. N. Burton Taylor	Non-executive Director	Appointed 12 June 2009
Mr. C. Roberts	Non-executive Director	Appointed 12 June 2009
Mr. T. Keene	Non-executive Director	Appointed 5 October 2011
Mr. S. Black	Non-executive Director	Appointed 5 October 2011
Mr. D. Crombie	Non-executive Director	Appointed 5 October 2011

The following Directors of the Company during the period were determined to be non-independent:

Mr. A .Paliulis	Mr. A. Paliulis who was appointed on 12 June 2009, is not considered independent as he is an employee of a related entity of major (16.89%) shareholder IFFCO Poultry Co SDN BHD, a wholly owned subsidiary of FELDA IFFCO SDN BHD.
Datuk Dr. Abdul Samad bin Haji Alias	Datuk Dr. Abdul Samad bin Haji Alias who was appointed 13 April 2010 is not considered independent as he is an officer of a related entity of major (16.89%) shareholder IFFCO Poultry Co SDN BHD, a wholly owned subsidiary of FELDA IFFCO SDN BHD. Datuk Dr. Abdul Samad bin Haji Alias resigned on 26 January 2011.
Dato' Ahmad Sabri	Dato' Ahmad Sabri who was appointed 4 April 2011 is not considered independent as he is an officer of a related entity of major (16.89%) shareholder IFFCO Poultry Co SDN BHD, a wholly owned subsidiary of FELDA IFFCO SDN BHD.
Mr. D. Farley	Mr. D. Farley who was appointed 1 December 2009 is not considered independent by virtue of his executive office as Managing Director and Chief Executive Officer.

For the period since 19 October 2011, the Board has comprised a majority of independent directors (6:3).

For the period 1 January 2011 to 26 January 2011, the Board comprised an equal number of independent directors and non-independent directors (3:3).

For the period 26 January 2011 to 4 April 2011, the Board comprised a majority of independent directors (3:2).

For the period 4 April 2011 to 19 October 2011, the Board comprised an equal number of independent directors and non-independent directors (3:3).

Structure of the Board (continued)

Accordingly there were two periods during which the Board comprised an equal number of independent directors and non-independent directors, and so technically the Board did not have a majority of independent Directors during those two periods. The Board was of the view that the Board's composition during those two periods, served the interests of shareholders for the following reasons:

- The Board had a majority of non-executive Directors and the Chairman, Mr. D. McGauchie, is an independent, non-executive Director. Mr. D. McGauchie has a casting vote ensuring the balance of power at Board level was retained by independent non-executive directors.
- Having regard to the size of IFFCO Poultry Co SDN BHD's investment and the absence of any other relationship between the Company and IFFCO Poultry Co SDN BHD, the Board believes IFFCO Poultry Co SDN BHD's interests are independent of management and are aligned with those of all shareholders.
- All Board committees are comprised only of non-executive Directors and each Chair of a committee is an independent Director.

There are procedures in place, agreed by the Board, to enable Directors in furtherance of their duties to seek independent professional advice at the Company's expense.

The term in office held by each Director in office at the date of this report is as follows:

Name	**Term in office**	**Total term (including broken periods)**
Directors		
Mr. D. McGauchie	1 year 9 months	1 year 9 months
Mr. D. Farley	2 years 2 months	2 years 2 months
Mr. C. Roberts	2 years 8 months	9 years
Mr. A. Paliulis	2 years 8 months	2 years 8 months
Mr. N. Burton Taylor	2 years 8 months	9 years
Dato' Sabri Ahmad	9 months	9 months
Mr. T. Keene	3 months	3 months
Mr. S. Black	3 months	3 months
Mr. D. Crombie	3 months	3 months
Alternate Directors		
Irfan Allana	1 year 3 months	1 year 3 months

For additional details regarding Board appointments, please refer to our website.

Performance

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators.

Board Renewal and Succession Planning

Board succession planning is an important part of the governance process. An extensive evaluation, review and succession planning process was undertaken by the Board in 2011 with the assistance of independent professional consultants.

On 26 January 2011, a representative director of major shareholder Felda IFFCO, Datuk Dr Abdul Samad bin Haji resigned from the Board due to medical reasons. On 4 April 2011, a new representative director of Felda IFFCO, Dato' Sabri Ahmad was appointed to the Board.

On 5 October 2011 the Company announced:

- The appointment of 3 independent non-executive directors being Mr. T. Keene, Mr. S. Black and Mr D. Crombie; and

- The imminent retirement of 2 independent non-executive directors being Mr. N. Burton Taylor and Mr. C. Roberts who had indicated that they would retire at the 2012 AGM and not stand for re-election.

Trading Policy

Under the Company's Share Trading Policy, a Director, executive or employee must not trade in any securities of the Company at any time when they are in possession of unpublished, price sensitive information in relation to those securities.

Before commencing to trade, executives and employees must first notify and obtain the approval of the Company Secretary to do so and a Director must first obtain the approval of the Chairman.

As required by the ASX Listing Rules, the Company notifies the ASX of any transactions completed by Directors in the securities of the Company.

A copy of the Company's Share Trading Policy is also available on the Company's website.

Code of Conduct

The Board has established a Code of Conduct with the objective of enhancing the Company's reputation for fair and responsible dealing and to help to maintain the high standards of corporate and individual behavior throughout the Company. The Company's Code of Conduct aims to protect the interests of shareholders, customers, employees and suppliers by promoting a culture of accountability and responsibility.

A copy of the Company's Code of Conduct is available on the Company's website.

Diversity Policy

AAco established a formal diversity policy in January 2012. The Company is committed to equal opportunity and diversity.

Diversity of gender, sexual orientation, age, ethnicity, race, religion, culture and background, style, skills and experience all add to our capability to develop and maintain a high performing workforce with the ability to take advantage of the diverse challenges and opportunities we face in Australia and around the globe.

In 2012 measurable objectives will be set and appropriate reporting will be included in the 2012 annual report. Broad diversity is encouraged and valued. During 2012 AAco will implement an initiative to fully understand its diversity profile and opportunities. Two known areas of diversity focus will be culture and gender.

During the 2011 year no appointments were made which would alter the gender diversity within senior management.

Whilst there are no female Directors on the AAco Board at the present time, the proportion of female employees to male employees within the AAco Group as at 31 December 2011 was 36% female and 64% male. There is strong female representation within the pastoral station workforce with 34% of employees at this level being female.

One of the key areas AAco focused on during the period was in respect of parental leave. In 2011, AAco established a parental leave policy under which a return to work bonus is offered.

The Charter for the Staff & Remuneration Committee has been reviewed and now includes roles relating to the Diversity Policy and related matters.

The Charter for the Nomination Committee has also been reviewed and a specific diversity criteria was identified and included to ensure diversity is considered in the Board renewal process.

The duties of the Staff and Remuneration Committee include:

- Reviewing and making recommendations to the Board on the diversity policy to ensure it is in line with applicable legislation and governance principles;
- In conjunction with the Nomination Committee ensuring the application of diversity policy to Board appointments and succession;
- Making recommendations to the Board regarding the diversity policy and strategies to address Board diversity;
- Monitoring the application of diversity policy to executive appointments and successions;
- Review and report on the relative proportion of women and men in the AAco workforce; and
- Reviewing remuneration by gender.

The setting of objectives and reporting to be provided in the 2012 annual report will be consistent with ASX Principle 3.

Nomination Committee

The Board has established a Nomination Committee, which is responsible for assessing the necessary and desirable competencies of Board members, reviewing Board succession plans and working with the Chairman in evaluating the Board's performance. The Nomination Committee comprises non-executive Directors and the following Directors were committee members in 2011:

Mr. D. McGauchie (Chair)
Mr. N. Burton Taylor
Mr. A. Paliulis
Mr. C. Roberts
Mr. T. Keene (appointed 5 October 2011)
Mr. S. Black (appointed 5 October 2011)
Mr. D. Crombie (appointed 5 October 2011)
Datuk Dr. Abdul Samad bin Haji Alias (resigned 26 January 2011)
Dato' Ahmad Sabri became a member of the Nomination Committee on 24 January 2012

For details of Directors attendance at meetings of the Nomination Committee, refer to the Directors' Report.

For additional details regarding the role and responsibilities of the Nomination Committee including its charter, please refer to our website.

Audit Committee

The Board has established an Audit Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the Audit Committee.

The composition of the Audit Committee changed during the period due to resignations and new appointments of Board members. The members of the Audit Committee during the year were:

Mr. N. Burton Taylor (Chair)
Mr. D. McGauchie
Mr. C. Roberts (appointed 4 February 2011)
Mr. S. Black (appointed 19 October 2011)
Mr. D. Crombie (appointed 19 October 2011)
Datuk Dr. Abdul Samad bin Haji Alias (resigned 26 January 2011)

All members of the Audit Committee are non-executive directors.

The members of the Audit Committee and their qualifications are shown in this annual report on pages 1 to 3 of the Directors' Report.

For details on the number of meetings of the Audit Committee held during the year and the attendees at those meetings, refer to the Directors' Report.

For additional details regarding the Audit Committee including a copy of its charter, please refer to our website.

Risk Management Committee

The Board and Management have continued to demonstrate their focus and commitment to risk management recognizing that, as an integral part of AAco's operating model, robust and transparent management of material business risks is critical to ensuring that AAco can meet sustainability, profitability and stakeholder expectations in the long term.

The Board's commitment to risk management is evidenced by the appointment of a Chief Risk Officer who brings experience and focus to Management on risk issues and the establishment of a Risk Management Committee with the mandate to assist the Board in fulfilling its responsibilities to oversee the Company's risk profile and respond quickly to changes in its risk profile. Following its establishment in March 2011, the Committee met seven times during 2011. The Committee is chaired by an independent consultant and includes three Board members including the Chairman of the Board. It is attended regularly by the MD/CEO, CFO and the CRO and by other invited staff from time to time.

Risk Management Committee (continued)

The members of the Risk Management Committee during the year were:

Mr. Jeff Carmichael (Chair) (appointed 24 March 2011)
Mr. D. McGauchie (appointed 24 March 2011)
Mr. A. Paliulis (appointed 24 March 2011)
Mr. T. Keene (appointed 19 October 2011)

The Board through its Risk Management Committee is responsible for the overall corporate governance and risk management of AAco. It has responsibility for overseeing AAco's risk profile, for approving and overseeing the framework for managing risk and for setting appropriate tolerance levels for each risk group. The tasks of undertaking and assessing risk management and internal control effectiveness are delegated to Management through the Managing Director/CEO, including responsibility for design, day-to-day implementation, and management of the Company's risk management and internal control systems. Management reports to the Committee and through to the Board on the Company's key risks and the extent to which it believes these risks are being adequately managed.

At least once a year, the Company carries out a formal risk review, including revision of insurance policies that the Company has in place. Identified material business risks are assigned risk ratings and appropriate controls are developed and mitigating circumstances are documented. The Company has a risk aware culture, and all members of the Management team have a responsibility for risk in their area.

Management carries out risk specific management activities in six broad families:

- **Strategic Risks** – the risks associated with determining the direction of the business
- **Production Risks** – the risks associated with producing the volume and quality of cattle, beef and crops
- **Financial Risks** – the risks associated with the volatility in commodity prices, availability of funding and counterparty credit
- **Commercial and Asset Continuity Risks** – the risks associated with on-going business operations
- **Legal and Compliance Risks** – the risks associated with breaches of the law and regulations
- **People and Culture Risks** – the risks associated with the employment of staff

To assist stakeholders in understanding the nature of the risks faced by the Company, the Board has prepared a list of key risks, taken from within the risk families identified above, as part of this Principle 7 disclosure. This list is not exhaustive, and will be subject to change based on underlying market events. The key risks are:

- Workplace health and safety
- Biosecurity threats
- Food Safety threats
- Cattle supply and costs of operation
- Environmental issues including water and climate change
- Market dynamics
- Management control systems

The Board has a number of mechanisms in place to ensure that Management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses the Company's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk.
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets.

During the 2010 financial year the Board commissioned an independent review of the Group's Risk Management Framework. The Board resolved to accept the Risk Management Framework recommended by the review and implementation of the framework commenced in 2011 and continues into 2012. The Company's Target Risk Management Framework was developed with reference to the Australian Standard – AS/NZS ISO 31000:2009 for Risk Management, and includes:

- The Board approved Risk Management Policy (published on the Company's website);
- The consolidated Risk Register, detailing key strategic, operational, compliance, and financial risks;
- The Risk Management Committee; and
- An internally managed Quality Management System including a detailed set of policies and procedures for Company activities.

CEO and CFO Certification

In accordance with section 295A of the Corporations Act, the CEO and CFO have provided a written statement to the Board that:

- Their view provided on the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board.
- The Company's risk management and internal compliance and control system is operating effectively in all material respects.

The Board agrees with the views of the ASX on this matter and notes that due to its nature, internal control assurance from the CEO and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgment, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not, and cannot be, designed to detect all weaknesses in control procedures.

Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Staff & Remuneration Committee links the nature and amount of the Managing Director's/CEO's and key management personnel's remuneration to the Company's financial and operational performance. In relation to the payment of bonuses, performance rights and other incentive payments, discretion is exercised by the Board having regard to the overall performance of the Company and the performance of the individual during the period.

The expected outcomes of this remuneration structure are:

- Retention and motivation of key executives;
- Attraction of quality management to the Company; and
- Performance incentives which allow executives to share in the rewards of the success of the Company.

For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by Directors and executives in the current period please refer to the Remuneration Report, which is contained within the Directors' Report.

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves.

Staff and Remuneration Committee

The Board has a Staff and Remuneration Committee, comprising six non-executive Directors. The Committee comprises a majority of independent non-executive directors and is chaired by an independent director. Further information on the Committee's role, responsibilities and membership can be seen at www.aaco.com.au.

The composition of the Staff and Remuneration Committee changed during the period due to resignations and new appointments of Board members. The members of the Staff and Remuneration Committee during the year were:

Mr. T. Keene (Chair) (appointed to the committee on 19 October 2011 and appointed Chair on 28 November 2011)
Mr. C. Roberts (resigned as Chair on 28 November 2011)
Mr. A. Paliulis
Mr. D. McGauchie
Mr. N. Burton Taylor
Mr. D. Crombie (appointed 19 October 2011)

The members of the Staff and Remuneration Committee and their qualifications are shown in this annual report on pages 1 to 3 of the Directors' Report.

For details on the number of meetings of the Staff and Remuneration Committee held during the year and the attendees at those meetings, refer to the Directors' Report.

For additional details regarding the Staff and Remuneration Committee including a copy of its charter, please refer to our website.

When considered appropriate, the Board obtains independent advice regarding non-executive Directors' remuneration.

No Director or executive uses hedging instruments to limit their exposure to risk on either shares or options in the Company. The Company's policy is that the use of such hedging instruments is prohibited.

Staff and Remuneration Committee (continued)

For details of the amount of remuneration and all monetary and non-monetary components for all of the Directors and each of the key executives during the year, refer to the Remuneration Report.

There is no scheme to provide retirement benefits (other than superannuation) to non-executive Directors.

Shareholder Communication Policy

Pursuant to Principle 6, the Company's policy is to provide timely, open and accurate information to all stakeholders, including shareholders, regulators and the wider investment community. The Company has developed policies and procedures in relation to disclosure and compliance with the ASX Listing Rules disclosure requirements. The ASX liaison person is the Company Secretary/General Counsel.

A copy of the Company's Continuous Disclosure Policy is available on the Company's website, www.aaco.com.au.

The Company is committed to:

- Ensuring that shareholders and the financial markets are provided with full and timely information about the Company's activities in a balanced and understandable way.
- Complying with continuous disclosure obligations contained in the ASX listing rules and the Corporations Act.
- Communicating effectively with its shareholders and making it easier for shareholders to communicate with the Company.

To promote effective communication with shareholders and encourage effective participation at general meetings, information is communicated to shareholders:

- Through release of information to the market via ASX.
- Through the distribution of the annual report and notices of annual general meeting.
- Through shareholder meetings and investor relations presentations.
- Through letters and other forms of communications directly to shareholders.
- By posting relevant information on the Company's website www.aaco.com.au.

Shareholders can elect to receive all communications electronically, as hard copy or not to receive some communication materials by contacting the share registry.

All shareholders are encouraged to attend and/or participate in the Company's Annual General Meeting. Shareholders can attend in person or by proxy. Directors and senior executives attend the meeting.

The external auditors are required to attend the annual general meetings and are available to answer any shareholder questions about the conduct of the audit and preparation of the audit report.

Index – Financial Statements

Consolidated Income Statement 42
Consolidated Statement of Comprehensive Income 43
Consolidated Statement of Financial Position 44
Consolidated Statement of Cash Flows 45
Consolidated Statement of Changes in Equity 46
1. Corporate information 47
2. Summary of significant accounting policies 47
3. Financial risk management objectives and policies 63
4. Significant accounting judgements, estimates and assumptions 68
5. Operating segments 68
6. Other revenue and other income 69
7. Expenses 70
8. Income tax 70
9. Dividends paid and proposed 72
10. Earnings per share 72
11. Discontinued operations 73
12. Current assets — cash and cash equivalents 74
13. Current assets — trade and other receivables 74
14. Current assets — inventories and consumables 74
15. Biological assets — livestock 75
16. Non-current assets — receivables 75
17. Non-current assets — property plant and equipment 76
18. Non-current assets — intangible assets and goodwill 78
19. Current liabilities — trade and other payables 79
20. Current liabilities — provisions 79
21. Non-current liabilities — provisions 79
22. Derivative financial instruments 79
23. Interest-bearing loans and borrowings 80
24. Contributed equity 81
25. Retained earnings and reserves 82
26. Cash flow statement reconciliation 83
27. Related party disclosures 83
28. Controlled entities 84
29. Key management personnel 87
30. Share-based payment plans 89
31. Commitments 92
32. Contingencies 93
33. Auditors' remuneration 93
34. Superannuation commitments 93
35. Information relating to the parent entity 94
36. Subsequent events 94
Directors' Declaration 95
Independent Audit Report 96
ASX Additional Information 98
Company Information 100

Consolidated Income Statement

For the year ended 31 December 2011

	Note	2011 $000	2010* $000
Revenue from continuing operations			
Cattle sales		230,488	156,892
Meat sales		135,151	114,282
Crop income		12,000	2,910
		377,639	274,084
Cattle growth		66,224	45,580
Cattle fair value adjustments		105,153	80,644
		549,016	400,308
Deemed cost of cattle sold		(230,488)	(156,892)
Cattle expenses		(35,011)	(19,184)
Feedlot cattle expenses		(27,796)	(28,347)
Cost of meat sold		(130,146)	(103,504)
Crop costs		(6,720)	(3,247)
Gross operating margin		118,855	89,134
Other revenue	6(a)	1,894	1,940
Other income	6(b)	5,974	4,581
Expenses			
Administration and other costs		(13,060)	(8,552)
Business development and other non-station operating costs		(1,382)	(1,261)
Employee expenses	7(d)	(29,401)	(24,036)
Lease and property related costs		(3,899)	(4,075)
Other station operating costs		(18,041)	(15,431)
Profit from continuing operations before finance costs, income tax, depreciation, amortisation and impairment		60,940	42,300
Depreciation, amortisation and impairment	7(a)	(9,750)	(11,050)
Profit from continuing operations before finance costs and income tax expense		51,190	31,250
Net finance costs	7(b)	(31,067)	(26,608)
Profit from continuing operations before income tax		20,123	4,642
Income tax expense	8	(5,712)	(1,762)
Profit from continuing operations after related income tax expense		14,411	2,880
Loss from discontinued operations after related income tax benefit	11	(3,886)	(1,976)
Net profit after tax expense		10,525	904
Earnings per share		**cents**	**cents**
Basic, profit for the year attributable to ordinary equity holders of the parent	10	3.6	0.3
Diluted, profit for the year attributable to ordinary equity holders of the parent	10	3.6	0.3
Earnings per share for continuing operations			
Basic, profit from continuing operations attributable to ordinary equity holders of the parent	10	4.9	1.1
Diluted, profit from continuing operations attributable to ordinary equity holders of the parent	10	4.9	1.1

* Certain numbers shown here have been re-categorised from the 2010 financial statements. Refer to note 2(z).

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Note	2011 $000	2010 $000
Profit for the period		10,525	904
Other comprehensive income			
Fair value revaluation of land and buildings	17	9,543	(76,756)
Loss on revaluation of plant and equipment		(986)	-
Income tax	8	(3,100)	23,372
Changes in the fair value of cash flow hedges		(2,249)	-
Other comprehensive income/(loss) for the period, net of tax		3,208	(53,384)
Total comprehensive income/(loss) for the period, net of tax		13,733	(52,480)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 31 December 2011

	Note	2011 $000	2010 $000
Current Assets			
Cash and cash equivalents	12	23,369	17,045
Trade and other receivables	13	20,712	15,016
Inventories and consumables	14	25,146	20,303
Biological assets – livestock	15	168,354	155,126
Derivative financial instruments	22	30	651
Other assets		723	364
Total Current Assets		238,334	208,505
Non-Current Assets			
Receivables	16	9	9
Biological assets – livestock	15	315,329	256,466
Property, plant and equipment	17	608,468	598,925
Deferred tax assets	8	2,786	4,394
Intangible assets and goodwill	18	-	4,428
Total Non-Current Assets		926,592	864,222
Total Assets		1,164,926	1,072,727
Current Liabilities			
Trade and other payables	19	25,791	28,601
Provisions	20	2,310	2,157
Interest bearing loans and borrowings	23	56,421	86,626
Derivative financial instruments	22	4,471	4,655
Current tax liabilities	8	192	819
Total Current Liabilities		89,185	122,858
Non-Current Liabilities			
Provisions	21	444	525
Interest bearing loans and borrowings	23	311,148	270,723
Deferred tax liabilities	8	92,162	85,987
Total Non-Current Liabilities		403,754	357,235
Total Liabilities		492,939	480,093
Net Assets		671,987	592,634
Equity			
Contributed equity	24	238,296	172,785
Reserves	25	350,999	347,682
Retained earnings	25	82,692	72,167
Total Equity		671,987	592,634

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Note	2011 $000	2010 $000
Cash flows from operating activities			
Receipts from customers		360,450	277,136
Payments to suppliers, employees and others		(402,110)	(312,671)
Interest received		625	293
Net GST received from ATO		11,209	11,822
Net operating cash flows before interest and finance costs		(29,826)	(23,420)
Payment of interest and finance costs		(34,229)	(25,418)
Net cash flows used in operating activities	26(a)	(64,055)	(48,838)
Cash flows from investing activities			
Payments for property, plant and equipment and other assets		(17,907)	(4,685)
Proceeds from sale of property, plant and equipment		22,507	648
Payments for Tipperary assets		(5,000)	-
Net cash flows used in investing activities		(400)	(4,037)
Cash flows from financing activities			
Proceeds from issue of shares net of transaction costs		65,511	-
Proceeds from borrowings		54,283	60,341
Repayment of borrowings		(49,015)	-
Net cash flows from financing activities		70,779	60,341
Net increase in cash and cash equivalents		6,324	7,466
Cash and cash equivalents at the beginning of the period		17,045	9,579
Cash and cash equivalents at the end of the period	12	23,369	17,045

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Contributed Equity (note 24) $000	Reserves (note 25) $000	Retained Earnings (note 25) $000	Total Equity $000
At 1 January 2010	172,785	401,061	71,263	645,109
Profit for the period	-	-	904	904
Other comprehensive loss	-	(53,384)	-	(53,384)
Total comprehensive loss for the period	-	(53,384)	904	(52,480)
Transactions with owners in their capacity as owners:				
Cost of share-based payment	-	5	-	5
At 31 December 2010	172,785	347,682	72,167	592,634
Profit for the period	-	-	10,525	10,525
Other comprehensive income	-	3,208	-	3,208
Total comprehensive income for the period	-	3,208	10,525	13,733
Transactions with owners in their capacity as owners:				
Issue of share capital	67,696	-	-	67,696
Transaction costs on share issue	(3,109)	-	-	(3,109)
Exercise of options	924	-	-	924
Cost of share-based payment	-	109	-	109
At 31 December 2011	238,296	350,999	82,692	671,987

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

.

1. CORPORATE INFORMATION

The consolidated financial report of Australian Agricultural Company Limited (the Company) for the year ended 31 December 2011 was authorised for issue in accordance with a resolution of the Directors on 31 January 2012.

Australian Agricultural Company Limited is a Company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principle activities of the Group are described in the Directors' Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

It is recommended that the financial report be considered together with any public announcements made by Australian Agricultural Company Limited and its controlled entities during the year ended 31 December 2011 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001* and ASX listing rules.

Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for land and buildings, livestock, crops and derivative financial instruments, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000), unless otherwise stated, under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

(a) Compliance with IFRS

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(b) New accounting standards and interpretations

(i) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 January 2011. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Group.

- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]*
- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]*
- Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*
- AASB 124 *Related Party Disclosures (December 2009)*
- AASB 2009-12 *Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]*
- AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement*
- AASB 2010-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]*
- AASB 2010-5 *Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]*

(ii) Accounting Standards and Interpretations issued but not yet effective

There are a number of Standards and Interpretations that will be mandatory in future reporting periods. The Group has not elected to early adopt these Standards and Interpretations and does not expect them to have a material effect on the reported financial position or performance of the Group.

Future Standards that may have a material effect on the reported financial position or performance of the Group are;
- AASB 9 Financial Instruments
- AASB 127 Consolidated and Separate Financial Statements
- AASB 13 Fair Value

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Australian Agricultural Company Limited, and its subsidiaries (as outlined in note 28) as at December each year (the Group).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Group controls another entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-Group transactions have been eliminated in full.

Subsidiaries have the same balance date as the parent company. This includes accounting policies prepared for all subsidiaries which are fully consolidated from the date on which control is obtained by the Group. They cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Australian Agricultural Company Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. The Company reviews its investments in subsidiaries regularly for potential impairment. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values (see note 2(d)).

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Non-controlling interests existing at balance date are allocated their share of net profit after tax in the income statement and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss, or retained earnings, as appropriate

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred, and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group’s operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the income statement.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

(e) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision maker - being the Chief Executive Officer.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services
- Nature of the production processes
- Type or class of customer for the products and services
- Methods used to distribute the products or provide the services, and if applicable
- Nature of the regulatory environment

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for “all other segments”.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Foreign currency translation

(i) Functional and presentation currency

Both the functional and presentation currency of Australian Agricultural Company Limited and its Australian subsidiaries is Australian dollars ($). All Group subsidiaries are domiciled in Australia.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

All differences arising on settlement or translation of monetary items are taken to the income statement with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed, at which time, the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

(g) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the statement of financial position.

(h) Trade and other receivables

Trade receivables, which generally have 14 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts significantly overdue are considered indicators that the trade receivable is impaired. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(i) Inventories and consumables

Inventories and consumables held for use in the Group's operations are valued at the lower of cost and net realisable value. Cost is determined on the average cost basis and comprises the cost of purchase including transport cost.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Biological Assets

The Group has biological assets comprising cattle, other livestock, crops not yet harvested, and harvested crops. The Group only recognises biological asset or agricultural produce in its accounts when it:

(a) controls the asset as a result of past events;

(b) has determined that the future economic benefits associated with the asset will flow to the Group; and

(c) the fair value or cost of the asset can be measured reliably.

The fair value of an asset is based on its present location and condition. If an active market exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If the Group has access to different active markets then the Group uses the most relevant one. The relevant one is defined as the market “expected” to be used at the time the fair value is established.

If an active market does not exist then the Group uses one of the following, when available, in determining fair value:

(a) the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period; or

(b) market prices for similar assets with adjustments to reflect differences; or

(c) sector benchmarks.

In the event that market determined prices or values may not be available for a biological asset in its present condition the Group may use the present value of the expected net cashflows from the asset discounted at a current market determined rate in determining fair value.

Broadly, net market values are determined as follows for the most significant types of cattle:

- Commercial breeding herd – prices for these cattle generally reflect a longer term view of the cattle market and, as such, are less volatile than movements in the spot cattle prices evident with trading cattle. The value of these cattle is determined by independent valuation and with reference to prices received for large representative sales of breeding cattle similar to the Group’s herd;
- Trading cattle – prices for these cattle generally reflect the shorter term spot prices available in the market place. Relevant market indicators used only as general reference include Roma store cattle prices, Queensland Cattle Market Index, and actual spot cattle prices received/quoted for the Company’s cattle in and around balance date; and
- Bull breeding herd – these bulls were independently valued at 31 December 2011.

Crops in ground at balance date are measured at their fair value less costs to sell. Immediately prior to harvest the fair value is determined on an estimated yield per hectare basis at the commodity's quoted spot price in the market place. At balance date if the crop is immature (i.e. it is too early to reliably predict yield), then fair value equates to the costs incurred on the crop to balance date. The value is only brought to account when it can be reliably measured and it’s probable that the future economic benefits will be received by the Company.

(k) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of commodity purchase contracts that meet the definition of a derivative under AASB 139 are recognised in the income statement in cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the group’s expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

(a) Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.

(b) Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

(c) Hedges of a net investment in a foreign operation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Derivative financial instruments and hedge accounting (continued)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as described below:

Fair value hedges
The change in the fair value of a hedging derivative is recognised in the income statement in finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the income statement in finance costs.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through the income statement over the remaining term of the hedge using the Effective Interest Rate (EIR) method. EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedge item is derecognised, the unamortised fair value is recognised immediately in the income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement.

Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement in other operating expenses.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecasted transactions and firm commitments, as well as forward commodity contracts for its exposure to volatility in the commodity prices. The ineffective portion relating to foreign currency contracts is recognised in finance costs and the ineffective portion relating to commodity contracts is recognised in other operating income. Refer to Note 22 for more details.

Amounts recognised as other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

The Group has interest rate swaps that are used as hedges for the exposure to cash flow movements in loan movements. See note 22 for more details.

(l) Property, plant and equipment

Land, buildings and improvements are measured on a fair value basis, as determined by a Directors' valuation. At each reporting date, the value of each asset in these classes is reviewed to ensure that it does not materially differ from the asset's fair value at that date. Where necessary, the asset is revalued to reflect its fair value.

Pastoral and perpetual property leases have been included in Land.

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. Directly attributable costs for the acquisition and construction of an asset are capitalised if the relevant recognition criteria are met. All other repairs and maintenance are recognised in profit or loss as incurred.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Property, plant and equipment (continued)

Depreciation is calculated on a straight line basis over the estimated useful life of the asset as follows:

Fixed Asset Type	Average Useful Life
Land (freehold, pastoral & perpetual property leases)	Not depreciated
Buildings	40 years
Fixed improvements	30 years
Owned plant and equipment	3-10 years
Plant and equipment under lease	2-5 years
Motorised equipment	5 years

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any indication of impairment exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

(ii) Revaluations of land and buildings

Following initial recognition at cost, land and buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm’s length transaction as at the valuation date.

All pastoral and perpetual property leases have been classified as property, plant and equipment in the statement of financial position. All initial lump sum payments in respect of pastoral and perpetual property leases have been classified as property, plant and equipment. The remaining lease payments are nominal and are therefore expensed to the income statement as incurred.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the statement of financial position, unless it reverses a revaluation decrement of the same asset previously recognised in the statement of comprehensive income.

Any revaluation decrement is recognised in the income statement unless it directly offsets a previous increment of the same asset in the asset revaluation reserve. In addition, any accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to the capital profits reserve.

Land and buildings are valued by external independent valuers on a rotational, but at least triennial basis to ensure that the carrying amount does not differ materially from the respective asset’s fair value at each reporting date.

(iii) Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the period the item is derecognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Leases & Agistment

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessee

(i) Pastoral and Perpetual property leases

Pastoral and perpetual property leases have been included in Property, Plant and Equipment (Refer note 17).

(ii) Agistment Agreements

Agistment agreements give the Group the right to use land under a licence agreement to feed and pasture livestock for a fee. Agistment agreements are usually up to 12 months duration that may be renewed for further periods. Agistment rights are not capitalised by the Group and the costs are expensed as incurred.

(iii) Other leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(n) Impairment of non-financial assets other than goodwill and indefinite life intangibles

Non-financial assets other than goodwill and indefinite life intangibles are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(o) Goodwill and intangibles

(i) Goodwill

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment determined in accordance with AASB 8. (Refer note 18.)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Goodwill and intangibles (continued)

(i) Goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units), to which the goodwill relates. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Further details on the methodology and assumptions used are outlined in note 18.

Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(ii) Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired (see note (n) for methodology). The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

(iii) Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently, when an indication of impairment arises during the reporting period.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade payables are unsecured and are usually paid within 30 days of recognition. Other payables are unsecured and are usually paid within 90 days of recognition.

(q) Financial Liabilities

Initial recognition and measurement

Financial liabilities within the scope of AASB 139 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, described as follows:

(i) Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. The Group does not currently hold qualifying assets but, if it did, the borrowing costs directly associated with this asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

(ii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

(iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts; and
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Provisions and employee benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(s) Share-based payment transactions

Equity settled transactions

The Group provides benefits to its employees (including key management personnel) in the form of share based payments, whereby employees render services in exchange for shares or rights over shares (equity settled transactions).

The current plans in place to provide these benefits:

- The Executive Option Plan (EOP), which provides benefits to the Managing Director/Chief Executive Officer, senior executives and middle management. There will be no further grants under this plan; and
- The Long Term Incentive Plan (LTI), which provides benefits to the Managing Director/ Chief Executive Officer. No other employees or Directors receive any benefit under this plan.
- The Deferred Equity Award Plan (DEA), which provides benefits to senior executives and middle management. No Director or the Managing Director/ Chief Executive Officer receive any benefit under this plan.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by management using the Black Scholes model or other applicable models.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Australian Agricultural Company Limited (market conditions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of:
- The grant date fair value of the award;
- The current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- The expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Share-based payment transactions (continued)

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition or non-vesting condition is considered to vest irrespective of whether or not that market condition or non-vesting is fulfilled, provided that all other conditions are satisfied.

If a non-vesting condition is within the control of the Group, Company or the employee, the failure to satisfy the condition is treated as a cancellation. If a non-vesting condition within the control of neither the Group, Company nor employee is not satisfied during the vesting period, any expense for the award not previously recognised is recognised over the remaining vesting period, unless the award is forfeited.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see note 10).

(t) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(u) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Revenue on livestock is recognised in accordance with Accounting Standard AASB 141 *Agriculture,* which requires livestock to be measured at net market value at each reporting date. The net market value is determined through price movements, natural increase and the weight of the herd.

Net increments or decrements in the market value of livestock are recognised as revenue or expense in the income statement, determined as:

- The difference between the total net market value of livestock recognised at the beginning of the financial year and the total net market value of livestock recognised as at the reporting date; less
- Costs expected to be incurred in realising the market value (including freight and selling costs).

The value of the Group's herd is marked to market each quarter***.***

(i) Livestock (Refer Note 2(j))
Determination of net market value of livestock:

At 31 December 2011, the Group has approximately 442,172 breeding cattle (31 December 2010: 295,856) and 223,419 non-breeding cattle (31 December 2010: 281,288). Unbranded calves at 31 December 2011 have been estimated at 88,077 (31 December 2010 – 71,238).

The breeding cattle comprise principally females and breeding bulls, up to 10 years of age. The non-breeding cattle comprise trading cattle including feedlot cattle. Trading cattle represent steers and heifers available for sale by the Group at balance which are generally less than three years old.

The Group's herd profile is as follows:	Number of Cattle	
	2011	**2010**
Breeding - Commercial and bull breeding herd	442,172	295,856
Non-breeding - Trading cattle	223,419	281,288
Total Cattle	665,591	577,144

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Revenue recognition (continued)

(i) Livestock (continued)
Market values for each herd type are determined after assessing a number of key market indicators, to ensure the values determined are representative of the Group's herd.

Broadly, net market values are determined as follows for the most significant types of cattle:

- Commercial breeding herd – prices for these cattle generally reflect a longer term view of the cattle market and, as such, are less volatile than movements in the spot cattle prices evident with trading cattle. The value of these cattle is determined by independent valuation and with reference to prices received for large representative sales of breeding cattle similar to the Group's herd;
- Trading cattle – prices for these cattle generally reflect the shorter term spot prices available in the market place. Relevant market indicators used only as general reference include Roma store cattle prices, Queensland Cattle Market Index, and actual spot cattle prices received/quoted for the Company's cattle in and around balance date;
- Bull breeding herd – these bulls were independently valued at balance date.

Other Livestock balances include the fair value of the Group's working horses herd. These biological assets are measured at net market value at balance date, in accordance with AASB 141 *Agriculture.*

(ii) Cropping operations
Revenue on cropping operations is accounted for in accordance with AASB 141 *Agriculture*, which requires that the market value of the harvest be brought to account as revenue. Crops in ground at balance date are measured at their fair value less costs to sell. Immediately prior to harvest the fair value is determined on an estimated yield per hectare basis at the commodity's quoted spot price in the market place. At balance date if the crop is immature (i.e. it is too early to reliably predict yield), then fair value equates to the costs incurred on the crop to balance date. The value is only brought to account when it can be reliably measured and it's probable that the future economic benefits will be received by the Group.

(iii) Sale of goods
Revenue from the sale of goods is recognised when there has been a transfer of risks and rewards to the customer (through the execution of a sales agreement at the time of delivery of the goods to the customer), no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally title has passed (for shipped goods this is the bill of lading date).

(iv) Rendering of services
Revenue is recognised on the rendering of services when the outcome of a contract to provide services can be measured reliably and the service is performed.

(v) Interest revenue
Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(vi) Dividends
Revenue is recognised when the Group's right to receive the payment is established.

(v) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired or originated. Designation is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Recognition and derecognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or when the entity transfers substantially all the risks and rewards of the financial assets. If the entity neither retains nor transfers substantially all of the risks and rewards, it derecognises the asset if it has transferred control of the assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Investments and other financial assets (continued)

Subsequent measurement of the Group's financial assets

(i) Financial assets at fair value through profit or loss
Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the income statement and the related assets are classified as current assets in the statement of financial position.

(ii) Loans and receivables
Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

(w) Income tax and other taxes

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- When the taxable temporary difference is associated with investments in subsidiaries and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised .

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Income tax and other taxes (continued)

(i) Tax consolidation legislation

Australian Agricultural Company Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation.

Income tax is recognised on a group allocation basis under which current and deferred tax amounts for the tax consolidated group are allocated among each entity in the Group. The head entity, Australian Agricultural Company Limited, is liable for the current income tax liabilities of the Group.

In addition to its own current and deferred tax amounts, Australian Agricultural Company Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated Group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in note 8.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(ii) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(x) Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the statement of comprehensive income, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

(y) Earnings per share

Earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses.
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Reclassification of the Income Statement

Australian Accounting Standard AASB 101 'Presentation of Financial Statements' allows an entity to change the presentation or classification of items in its financial statements, if the change in presentation provides information that is reliable and more relevant to the users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. For the year ended 31 December 2011 the Company has changed the presentation of its Income Statement to a format that is reliable and more relevant to its users. These changes included, amongst others, disclosing cattle fair value adjustments and deemed cost of cattle sold separately on the face of the income statement. The comparatives have been reclassified to reflect the changes in presentation. The effect of this re-classification on the 31 December 2010 income statement is as follows:

	2010 $000
Sales revenue as previously reported	260,236
Amounts re-classified:	
Cattle sales	156,892
Meat sales	114,282
Crop income	2,910
Cattle growth	45,580
Cattle fair value adjustments	80,644
Deemed cost of cattle sold	(156,892)
Revenue from discontinued operations	16,820
Sales revenue as re-classified	260,236

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, bank loans and overdrafts, finance leases, cash and short-term deposits and derivatives.

Risk exposures and responses

The Group manages its exposure to key financial risks, including interest rate, commodity and foreign currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets while protecting future financial security. The Group will from time to time enter into commodity and forward currency contract positions where it is perceived that market conditions are such that it is considered prudent to enter into these transactions. Limited delegations will be reviewed by the Risk Management Committee and approved by the Board. Theses delegations are subject to tight profit/loss limits and reviews that are provided on a daily basis to senior management. The Group also applies Value at Risk limits and stress tests on a daily basis to limit the risk that positions would move over the stress ranges beyond the limits approved by the Board.

The Group enters into various derivative transactions that include interest rate swaps, commodity hedges and forward currency contracts.

The purpose of these transactions is to manage the potential volatility of outcomes arising from the Group's operations and its sources of finance. Derivatives relating to forward currency contracts and interest rate swaps provide economic hedges and may qualify for hedge accounting and are based on limits set by the Board. The main risks arising from the Group's financial instruments are interest rate risk, commodity price risk, foreign currency risk, credit risk and liquidity risk.

The Group uses different methods to measure and manage the different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate, foreign exchange and commodity prices. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of rolling cash flow forecasts.

The Group may hedge its beef commodity price exposure. The Group has a policy whereby it will forward sell a significant proportion of its feedlot cattle sales for a period of up to six months.

The majority of the Group's revenue is received in Australian dollars, although the prices received are influenced by movements in exchange rates, particularly that of the US dollar, Japanese yen, and Euro relative to the Australian dollar.

The Board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks during the year rested with the Risk Management Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for hedging cover of commodity price risk, foreign currency and interest rate risk, credit allowances, and future cash flow forecast projections.

(i) Interest rate risk

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	2011 $000	2010 $000
Financial Assets		
Cash assets	23,369	17,045
	23,369	17,045
Financial Liabilities		
Club loan facility:		
$25,000,000 bank loan	-	(20,000)
$85,000,000/$60,000,000 bank loan	(55,000)	(50,000)
$35,000,000 bank loan	(25,000)	-
$270,000,000 bank loan	-	-
Interest rate swaps	(4,469)	(4,655)
	(84,469)	(74,655)
Net exposure	(61,100)	(57,610)

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

(i) Interest rate risk (continued)

Interest rate swap contracts outlined in note 22, with a fair value of $4,469,000 (2010: $4,655,000) are exposed to fair value movements if interest rates change. The Group's policy is to manage its finance costs using a mix of fixed and variable rate debt. In accordance with its bank covenant obligations the Group maintains at least 50% of its borrowings at fixed rates which are carried at amortised cost and it is acknowledged that fair value exposure is a by-product of the Group's attempt to manage its cash flow volatility arising from interest rate changes. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2011, after taking into account the effect of interest rate swaps, approximately 78% (2010: 80%) of the Group's borrowings are at a fixed rate of interest. The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date:

Judgements of reasonably possible movements:	Effect on profit before tax	Effect on equity
2011	**$000**	**$000**
+1% (100 basis points)	705	6,000
-1% (100 basis points)	(705)	(6,000)
2010		
+1% (100 basis points)	2,003	-
-1% (100 basis points)	(2,003)	-

The movements in profit are due to the movement in fair value of interest rate swaps, variable rate debt and cash balances, based on movements in interest rates only.

Significant assumptions used in the interest rate sensitivity analysis include:

- Reasonably possible movements in interest rates were determined based on the Group's current credit rating and mix of debt in Australia, relationships with finance institutions, the level of debt that is expected to be renewed as well as a review of the last two year's historical movements and economic forecaster's expectations.
- A price sensitivity of derivatives based on a reasonably possible movement of interest rates at balance dates by applying the change as a parallel shift in the forward curve.
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.

In compliance with bank covenants the Company has hedged its interest rate exposure arising out of the bank facility agreement. The Company entered into new 3 year interest rate swaps on 3 August 2011 and 11 November 2011 for an aggregate of $200 million. This resulted in a $2,249,484 movement in other comprehensive income.

(ii) Commodity price risk

The group has transactional commodity price risk primarily in the sale of cattle and beef. Other exposures include cropping (principally cotton), feed inputs for its feedlot operations, and diesel. Purchases of commodities may be for a period of up to 12 months and partial hedging of these inputs may be for periods of up to 24 months.

At 31 December 2011, the Group had the following commodity price exposures that are not designated as cash flow hedges:

	2011 $000	2010 $000
Financial Assets		
Forward sales contracts	30	-
	30	-
Financial Liabilities		
Forward purchase contracts	-	-
Net Exposure	30	-

Judgements of reasonably possible movements:	Effect on profit before tax	Effect on equity
2011	**$000**	**$000**
Commodity Price +10%	127	-
Commodity Price -10%	(127)	-

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

(iii) Foreign currency risk

The Group also has transactional currency exposures. Such exposure arises from sales by the wholesale beef segment in currencies other than in Australian dollars.

The Group undertakes forward sales in foreign currencies. All forward sales are covered with foreign exchange contracts to coincide with the expected receipt of foreign funds spread over the year.

Forward currency contracts must be in the same currency as the sold item. It is the Group's policy not to enter into forward contracts or foreign exchange options until a firm commitment is in place.

At 31 December 2011, the Group had the following exposure to US$ foreign currency that is not designated in cash flow hedges:

	2011 $000	2010 $000
Financial Assets		
Forward currency contracts	-	651
	-	651
Financial Liabilities		
Forward currency contracts	2	-
	2	-

At 31 December 2011 substantially all foreign currency receivables were covered by forward currency contracts or foreign exchange options. The following sensitivity is based on the foreign currency risk exposures in existence at the balance sheet date.

At 31 December 2011, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:	Effect on profit before tax	Effect on equity
2011	**$000**	**$000**
AUD/USD +10%	1,141	-
AUD/USD -10%	(1,394)	-
AUD/JPY +10%	4	-
AUD/JPY -10%	(5)	-
AUD/EUR +10%	17	-
AUD/EUR -10%	(21)	-
2010		
AUD/USD +10%	1,221	-
AUD/USD -10%	(1,492)	-

The movements in profit are due to the movement in foreign exchange rates resulting in the movement in fair value of foreign exchange contracts and trade receivables. Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

Significant assumptions used in the foreign currency exposure sensitivity analysis include:

- Reasonably possible movements in foreign exchange rates were determined based on a review of the last two years historical movements and economic forecaster's expectations.
- The reasonably possible movement was calculated by taking the foreign currency spot rate as at balance date, moving this spot rate by the reasonably possible movements and then re-converting the foreign currency into AUD with the "new spot rate". This methodology reflects the translation methodology undertaken by the Group.
- A price sensitivity of derivatives has been based on a reasonably possible movement of spot rates at balance dates not on forward rates.
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.
- The sensitivity does not include financial instruments that are non-monetary items as these are not considered to give rise to currency risk.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

(iv) Price risk

The Group's exposure to derivative commodity price risk is minimal.

The Group does not currently apply hedge accounting to its beef and cotton commodity price exposures as the derivatives do not meet the requirements of hedge accounting. However, it has a policy whereby it will forward sell a significant proportion of its feedlot cattle sales for a period of up to 6 months and a significant portion of its cotton production. These contracts are entered into and continue to be held for the purpose of delivery of feedlot cattle and cotton arising from the Group's expected sale requirements; and are classified as non-derivative, and are not required to be fair valued.

The Group enters into forward purchase contracts for grain commodities. This practice mitigates the price risk for the Group. As at 31 December 2011 the Group had forward purchased approximately 35% (2010: 89%) of its expected grain usage for the coming 12 months. These contracts are entered into and continue to be held for the purpose of grain purchase requirements; and are classified as non-derivative, and are not required to be fair valued.

(v) Credit Risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and derivative instruments. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets (as outlined in each applicable note).

The Group does not hold any credit derivatives to offset its credit exposure.

With respect to receivables, the majority of the Group's credit risk is in Australia and is generally concentrated in the meat processing industry. The Group manages its credit risk by maintaining strong relationships with a limited number of quality customers. The risk is mitigated by paying an annual premium to a third party to accept credit risk in relation to certain sales overseas.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's experience of bad debts has not been significant.

There are no significant concentrations of credit risk within the Group.

(vi) Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and finance leases.

The Group manages its liquidity risk by monitoring the total cash inflows and outflows expected on a monthly basis. Australian Agricultural Company Limited has established comprehensive risk reporting covering its business units that reflect expectations of management of the expected settlement of financial assets and liabilities.

The following liquidity risk disclosures reflect all contractually fixed repayments and interest resulting from recognised financial liabilities and derivatives as of 31 December 2011. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract.

However, where the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When the Group is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the Group is required to pay.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows of financial instruments. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in the Group's ongoing operations such as property, plant and equipment and investments in working capital (e.g., inventories and trade receivables). These assets are considered in the Group's overall liquidity risk.

Liquid non-derivative assets comprising cash and receivables are considered in the Group's overall liquidity risk. The Group ensures that sufficient liquid assets are available to meet all the required short-term cash payments.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

(vi) Liquidity risk (continued)

The Group monitors rolling forecasts of liquidity reserves on the basis of expected cash flow.

Year ended 31 December 2011	Less than or equal to 6 months $000	6-12 Months $000	1-2 years $000	2-5 years $000	Total $000
Liquid financial assets					
Cash and cash equivalents	23,369	-	-	-	23,369
Trade and other receivables	20,712	-	-	-	20,712
	44,081	-	-	-	44,081
Financial liabilities					
Trade and other payables	25,791	-	-	-	25,791
Interest bearing loans and borrowings	11,953	74,773	311,015	4,618	402,359
Derivatives	716	682	(434)	(445)	519
	38,460	75,455	310,581	4,173	428,669
Net maturity	5,621	(75,455)	(310,581)	(4,173)	(384,588)
Year ended 31 December 2010					
Liquid financial assets					
Cash and cash equivalents	17,045	-	-	-	17,045
Trade and other receivables	15,667	-	-	-	15,667
	32,712	-	-	-	32,712
Financial liabilities					
Trade and other payables	28,601	-	-	-	28,601
Interest bearing loans and borrowings	37,103	76,721	297,321	1,314	412,459
Derivatives	2,683	1,385	786	-	4,854
	68,387	78,106	298,107	1,314	445,914
Net maturity	(35,675)	(78,106)	(298,107)	(1,314)	(413,202)

(vii) Fair Values

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – The fair value is calculated using quoted prices in active markets.
Level 2 – The fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
Level 3 – The fair value is estimated using inputs for the asset or liability that are not based on observable market data.

As at 31 December 2011 and 2010, the only financial instruments recognised at fair value were interest rate swaps and forward currency contracts. These are valued using a level 2 method.

The fair value of the financial instruments summarised in the table below have been estimated by applying the level 2 method described above.

	2011 $000	2010 $000
Financial assets		
Derivative instruments		
Commodity contracts	30	-
Foreign exchange contracts	-	651
	30	651
Financial liabilities		
Derivative instruments		
Foreign exchange contracts	2	-
Interest rate swaps	4,469	4,655
	4,471	4,655

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

With respect to the Australian Federal Government's Carbon Scheme which has been substantially enacted as at the date of this report, agriculture has been initially exempted, however the Company will continue to monitor and assess this scheme for risks and opportunities.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Management has identified the following accounting policies for which significant judgements, estimates and assumptions have been made:

- Classification of perpetual and pastoral leases refer note 2 (m);
- Fair value determination of land refer note 2 (l);
- Fair value determination of livestock and crops refer note 2 (u); and
- Fair value determination of derivative financial instruments refer note 2 (k).

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

5. OPERATING SEGMENTS

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer (the chief operating decision maker) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the nature of the product produced and the reporting structure within the Group. Discrete financial information for each of the operating segments is reported to the Chief Executive Officer on at least a monthly basis.

Types of products

(i) Live Cattle

The Live Cattle Group operates an integrated cattle production system across 18 cattle stations, 5 agisted properties, 2 owned feedlots, 5 external feedlots, and 3 farms located throughout Queensland and the Northern Territory. The Live Cattle Group produces beef cattle that are processed for a range of uses from prime cuts typically sold to wholesalers. As the only significant product produced for external sale is beef cattle, the operation of the Live Cattle Group is considered to be one reportable segment.

(ii) Farming & Cropping

Some of the properties the Live Cattle Group operate carry out farming and cropping operations. The revenue generated from these operations is not yet at a significant level and form part of an integrated station management process and as such are not reported separately.

(iii) Wholesale Beef

The Wholesale Beef Group markets and distributes branded beef both internationally and domestically. The Wholesale Beef Group operates from the Group's offices at Milton in Brisbane. As the only significant product sold is branded meat, the operations of the Wholesale Beef Group are considered to be one reportable segment.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments are the same as those contained in note 2 to the accounts and in the prior period, except as follows:

- *Inter-entity sales*
  Inter-entity sales are recognised based on arm's length market prices.
- *Corporate Charges*
  It is the Group's policy that items of revenue and expense that are not directly attributable to the Wholesale Beef Group are allocated to the Live Cattle Group. No reallocation of general corporate charges is performed between the segments, which is primarily due to the significantly greater asset base employed by the Live Cattle Group.

5. OPERATING SEGMENTS (continued)

Accounting policies and inter-segment transactions (continued)

The following table presents the revenue and profit information regarding operating segments for the years ended 31 December 2011 and 31 December 2010. Segment liabilities are not reported to the Chief Executive Officer and therefore segment liabilities are not disclosed.

	Continuing Operations		
	Live Cattle $'000	Wholesale Beef $'000	Total $'000
31 December 2011			
Segment revenue	242,488	135,151	377,639
Segment profit before finance costs, income tax, depreciation, amortisation and impairment	58,788	2,152	60,940
Segment profit before finance costs and income tax expense	49,316	1,874	51,190
Segment profit before income tax	19,282	841	20,123
Segment profit from continuing operations after related income tax	13,822	589	14,411
Total segment assets	1,151,275	13,373	1,164,648
Discontinued operations			278
Total assets per statement of financial position			1,164,926
Total segment assets includes:			
Additions to non-current assets (other than financial assets and deferred tax)	25,825	-	25,825
31 December 2010			
Segment revenue	159,802	114,282	274,084
Segment profit before finance costs, income tax, depreciation, amortisation and impairment	33,532	8,768	42,300
Segment profit before finance costs and income tax expense	22,528	8,722	31,250
Segment profit before income tax	(4,074)	8,716	4,642
Segment profit from continuing operations after related income tax	(3,221)	6,101	2,880
Total segment assets	1,050,411	14,850	1,065,261
Discontinued operations			7,466
Total assets per statement of financial position			1,072,727
Total segment assets includes:			
Additions to non-current assets (other than financial assets and deferred tax)	5,636	-	5,636

6. OTHER REVENUE AND OTHER INCOME

	2011 $000	2010 $000
(a) Other revenue		
Interest revenue – unrelated parties	606	293
Other revenue	1,288	1,647
	1,894	1,940
(b) Other income		
Net gain on disposal of property, plant and equipment	5,943	343
Litigation settlement (refer note 32)	-	4,000
Net gain from mark to market valuation of foreign currency contracts	-	238
Other	31	-
	5,974	4,581

7. EXPENSES

(a) Depreciation, amortisation and impairment

	2011 $000	2010 $000
Depreciation of:		
- Buildings and leasehold improvements	3,513	3,468
- Plant and equipment	4,665	4,664
Total depreciation	8,178	8,132
Impairment of goodwill (refer note 18)	1,267	-
Net revaluation decrement recognised in income statement (refer note 17)	305	562
Impairment of property, plant and equipment (refer note 17)	-	2,356
Total depreciation, amortisation and impairment	9,750	11,050

(b) Net finance costs

	2011 $000	2010 $000
Bank loans and overdrafts	32,229	29,386
Other financing charges	1,274	1,257
Total finance costs	33,503	30,643
Mark to market valuation of interest rate swaps	(2,436)	(4,035)
Net finance costs	31,067	26,608

(c) Other expenses

	2011 $000	2010 $000
Provision for employee benefits		
- Annual leave	1,877	1,506
- Long service leave	85	(15)
Total provision for employee benefits	1,962	1,491
Minimum lease payments – operating leases	1,376	1,470
Research and development expenses charged directly to administration Expense	68	126
Reversal of provision for guarantees	-	(980)

(d) Employee expenses

	2011 $000	2010 $000
Salaries and wages	25,487	19,815
Workers' compensation expense	393	937
Defined contribution superannuation expense	2,059	1,636
Post-employment benefits	38	639
Share-based payments expense	109	5
Payroll tax	1,315	1,004
	29,401	24,036

8. INCOME TAX

(a) Income tax expense

The major components of income tax expense are:

	2011 $000	2010 $000
Income Statement		
Current income tax		
Current income tax charge	239	1,740
Deferred income tax		
Relating to origination and reversal of temporary differences	5,473	22
Income tax expense reported in the income statement	5,712	1,762

8. INCOME TAX (continued)

(b) Amounts charged or credited directly to equity

	2011 $000	2010 $000
Deferred income tax		
Net (gain)/loss on revaluation of land and buildings	(2,310)	23,372
Income tax (expense)/benefit reported in equity	(2,310)	23,372

(c) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

	2011 $000	2010 $000
Accounting profit before tax from continuing operations	20,123	4,642
Loss from discontinued operation	(5,551)	(2,824)
	14,572	1,818
At the statutory income tax rate of 30% (2010: 30%)	4,372	545
Building depreciation not deductible	278	1,040
Capital allowance on buildings	-	(763)
Net taxable gain on disposal of property	193	-
Tax losses recognised as deferred tax asset	(540)	-
Other items (net)	(256)	92
Income tax expense	4,047	914
Income tax expense reported in the consolidated income statement	5,712	1,762
Income tax benefit attributable to discontinued operations	(1,665)	(848)
	4,047	914

(d) Recognised deferred tax assets and liabilities

	Statement of financial position		Income statement	
	2011 $000	2010 $000	2011 $000	2010 $000
Deferred income tax at 31 December relates to the following:				
Deferred tax liabilities				
Accelerated depreciation for tax purposes	105	183	78	(56)
Revaluations of land and buildings to fair value	(51,898)	(51,797)	(2,301)	-
Revaluations of trading stock for tax purposes	(40,369)	(34,373)	5,996	350
	(92,162)	(85,987)		
Deferred tax assets				
Accruals and other	366	999	635	(122)
Capitalised expenses accelerated for book purposes	82	85	3	3
Impairment of property, plant and equipment	260	876	707	(876)
Interest rate swaps	746	1,423	677	829
Investments	8	8	-	-
Leave entitlements	826	805	(22)	72
Other employee costs	498	198	(300)	(178)
	2,786	4,394	5,473	22

8. INCOME TAX (continued)

(e) Movements in tax balances	Current Income tax 2011 $000	Deferred Income tax 2011 $000	Current Income tax 2010 $000	Deferred Income tax 2010 $000
Opening balance	(819)	(81,593)	-	(104,871)
(Charged)/credited to the income statement	1,426	(5,473)	(892)	(22)
Other	-	-	73	(72)
(Charged)/credited to equity	-	(2,310)	-	23,372
Prior year under provision	(799)	-	-	-
Closing balance	(192)	(89,376)	(819)	(81,593)

(f) Tax consolidation

Australian Agricultural Company Limited and its 100% owned subsidiaries are a tax consolidated group. Members of the Group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries based on individual tax obligations. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is Australian Agricultural Company Limited.

9. DIVIDENDS PAID AND PROPOSED

Dividends declared and paid during the year
No final or interim dividends were declared and paid during the year (2010: nil).

Franking credits
There are no franking credits available for the subsequent financial year (2010: nil).

10. EARNINGS PER SHARE

The following reflects the income/(loss) used in the basic and diluted earnings per share computations:

	2011 $000	2010 $000
Earnings used in calculating basic and diluted earnings per share		
Net profit attributable to ordinary equity holders of the parent from continuing operations	14,411	2,880
Loss attributable to ordinary equity holders of the parent from discontinued operations	(3,886)	(1,976)
Net profit attributable to ordinary equity holders of the parent for basic and diluted earnings	10,525	904

	Number	Number
Weighted average number of ordinary shares used as denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	294,139,358	264,264,459
Adjustments for calculation of diluted earnings per share:		
- Options and rights	235,327	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	294,374,685	264,264,459

There are no instruments (e.g., share options) excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are antidilutive for either of the periods presented.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

(a) Information concerning the classification of securities

Options
Options granted to employees (including KMP) as described in note 30 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These options have not been included in the determination of basic earnings per share.

10. EARNINGS PER SHARE (continued)

(b) Discontinued operations

To calculate earnings per share amounts for the discontinued operation (see Note 11), the weighted average number of ordinary shares for both basic and diluted amounts is as per the table above. The following table provides the profit/(loss) amounts used:

	2011 $000	2010 $000
Net loss attributable to ordinary equity holders of the parent from discontinued operations for basic and diluted earnings per share calculations.	(3,886)	(1,976)

11. DISCONTINUED OPERATIONS

During May 2011, the Board of Directors formed the view that the Chef's Partner business should be wound down. The process was substantially complete at 31 December 2011.

The Chef's Partner business was previously reported as part of the Wholesale Beef segment. The decision to close the business was in line with the revised strategic direction of the Group.

The results of the discontinued operation for the half-year are presented below.

	2011 $000	2010 $000
Revenue and other income	6,224	17,015
Administration and other costs	(723)	(2,066)
Business development and other non-station operating costs	(80)	(1)
Cost of goods sold value-added businesses	(5,244)	(11,020)
Employee expenses	(2,323)	(4,217)
Fuel expenses	(222)	-
Lease and property related costs	(429)	(681)
Loss from discontinued operations before finance costs, income tax, depreciation, amortisation and impairment	(2,797)	(970)
Depreciation, amortisation and impairment	(2,645)	(1,852)
Loss from discontinued operations before finance costs and income tax expense	(5,442)	(2,822)
Net finance costs from discontinued operations	(109)	(2)
Loss from discontinued operations before income tax	(5,551)	(2,824)
Income tax benefit from discontinued operations	1,665	848
Loss from discontinued operations after related income tax	(3,886)	(1,976)

There were no assets of Chef's Partner classified as held for sale at 31 December 2011.

The plant and equipment used by Chef's Partner has been either written off or transferred to other entities in the Group.

The net cash flows incurred by Chef's Partner are as follows:

Operating	(812)	1
Investing	173	(47)
Financing	-	-
Net cash outflow	(639)	(46)

Earnings per share:	cents	cents
Basic, loss for the year, from discontinued operation	(1.3)	(0.7)
Diluted, loss for the year, from discontinued operation	(1.3)	(0.7)

12. CURRENT ASSETS — CASH AND CASH EQUIVALENTS

	2011 $000	2010 $000
Cash at bank and in hand	8,457	15,208
Call deposits with banks	14,912	1,837
	23,369	17,045

(a) Reconciliation to statement of cash flows

For the purposes of the statement of cash flows, cash and cash equivalents comprise the amounts as disclosed above.

13. CURRENT ASSETS — TRADE AND OTHER RECEIVABLES

	2011 $000	2010 $000
Trade receivables	15,366	13,268
Other receivables	5,346	1,988
Allowance for impairment loss (a)	-	(240)
	5,346	1,748
Total trade and other receivables	20,712	15,016

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 14 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. In the current and prior years no impairment loss has been recognised by the Group.

(b) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities. Refer to note 3 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

(c) Foreign exchange and interest rate risk

Details regarding foreign exchange and interest rate risk exposure are disclosed in note 3.

14. CURRENT ASSETS — INVENTORIES AND CONSUMABLES

	2011 $000	2010 $000
Bulk stores (at cost)	5,783	5,099
Feedlot commodities (at cost)	10,490	7,547
Cotton crop	2,129	350
Horses and goats (at net market value)	2,288	2,010
Other (at cost)	4,456	5,297
Total inventories and consumables at the lower of cost and net realisable value	25,146	20,303

15. BIOLOGICAL ASSETS — LIVESTOCK

	2011 $000	2010 $000
Current		
Cattle at net market value		
(31 December 2011: 223,419 head, 31 December 2010: 227,474 head)	168,354	155,126
Total current livestock	168,354	155,126
Non-Current		
Cattle at net market value		
(31 December 2011: 442,172 head, 31 December 2010: 349,670 head)	315,329	256,466
Total non-current livestock	315,329	256,466
Total livestock	483,683	411,592
Livestock Movement		
Carrying amount at 1 January	411,592	351,093
Gain from changes to fair value less estimated point of sale costs	133,419	106,508
Purchases of livestock	124,684	88,170
Sale of livestock	(186,012)	(134,179)
Carrying amount at 31 December	483,683	411,592

16. NON-CURRENT ASSETS — RECEIVABLES

	2011 $000	2010 $000
Other receivables	9	9
Total non-current receivables	9	9

All amounts are receivable in Australian Dollars and are not considered past due or impaired.

(a) Fair values

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables.

17. NON-CURRENT ASSETS — PROPERTY PLANT AND EQUIPMENT

(a) Reconciliation of carrying amounts at the beginning and end of the period

		2011 $000	2010 $000
Freehold Land			
Opening balance, at fair value		84,430	99,428
Additions		3,360	-
Disposals		(13,228)	-
Net revaluation increment/(decrement)		891	(14,998)
Closing balance, at fair value	(b)	75,453	84,430
Pastoral Leases			
Opening balance, at fair value		421,119	483,439
Additions		-	-
Net revaluation decrement recognised in income statement	(e)	(305)	(562)
Net revaluation increment/(decrement) recognised in asset revaluation reserve		8,652	(61,758)
Closing balance, at fair value	(c)	429,466	421,119
Buildings and Improvements			
Opening balance, at fair value		100,907	101,761
Additions		11,265	1,519
Disposals		(3,609)	(17)
Impairment	(d)	-	(2,356)
Closing balance, at fair value	(b)	108,563	100,907
Accumulated Depreciation			
Opening balance		(25,636)	(22,168)
Depreciation for the year		(3,513)	(3,468)
Disposals		1,129	-
Closing balance	(b)	(28,020)	(25,636)
Fair value		108,563	100,907
Accumulated depreciation and impairment		(28,020)	(25,636)
Net carrying amount		80,543	75,271
Net freehold land, pastoral leases, buildings and improvements		585,462	580,820
Plant and Equipment			
Opening balance, at cost		57,807	55,247
Additions		11,216	4,117
Disposals		(3,825)	(1,557)
Closing balance, at cost		65,198	57,807
Accumulated Depreciation			
Opening balance		(39,702)	(35,976)
Depreciation for the year		(5,143)	(4,914)
Disposals		2,653	1,188
Closing balance		(42,192)	(39,702)
Net plant and equipment		23,006	18,105
Total net carrying amount of property, plant and equipment		608,468	598,925

17. NON-CURRENT ASSETS — PROPERTY PLANT AND EQUIPMENT (continued)

(b) Revaluation of freehold land and freehold buildings

The fair values of freehold land, pastoral leases, buildings and improvements have been determined by reference to Director valuations, supported by independent valuations performed by Herron Todd White and M3 in December 2011 (Herron Todd White in December 2010). Fair value was determined by reference to an open market, being the amount for which the asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the valuation date. The Group has developed a process where properties are independently valued on a three year rolling basis. Each year approximately one third of properties covering all regions are valued. The basis of valuation was existing use.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the balance sheet. Any revaluation deficit directly offsetting a previous surplus in the same asset is directly offset against the surplus in the asset revaluation reserve, otherwise it is charged to the net profit or loss.

The effective date of the revaluation was 31 December 2011.

If freehold land, pastoral leases, buildings and improvements were measured using the deemed cost model (the fair value of the assets in 1995) the carrying amounts would be as follows:

	2011 $000	2010 $000
Deemed cost	270,692	272,788
Accumulated depreciation	(28,020)	(25,636)
Net carrying amount	242,672	247,152

(c) Pastoral leases

The Group's cattle stations are generally held under a leasehold agreement with the Crown. Leasehold properties in Queensland are mainly pastoral holdings which are term leases with a maximum period of 50 years. In the Northern Territory, the pastoral leases held by the Group have been granted on a perpetual basis by the Northern Territory Government.

While there is no obligation for leases to be renewed by the Queensland Government at expiry, the Directors are not presently aware of any reason why leases would not be renewed on substantially the same terms based upon past practise by the Queensland Government.

(d) Impairment

During the period buildings and improvements were impaired to an amount of $Nil (2010: $2,356,000).

(e) Net revaluation decrement recognised in income statement

At 31 December 2010 the revaluation decrement for a specific station exceeded revaluations previously credited to the asset revaluation reserve resulting in $562,000 being expensed to the Income Statement. At 31 December 2011 there has been a similar revaluation decrement of $305,000 for a different station. This has been debited to the Income Statement.

18. NON-CURRENT ASSETS — INTANGIBLE ASSETS AND GOODWILL

(a) Reconciliation of carrying amounts at the beginning and end of the period

	2011 $000	2010 $000
Goodwill		
At 1 January (net of accumulated amortisation)	2,701	4,303
Impairment	(2,701)	(1,602)
At 31 December (net of accumulated amortisation)	-	2,701
Other intangibles		
At 1 January (net of accumulated amortisation)	1,727	1,727
Impairment	(1,727)	-
At 31 December (net of accumulated amortisation)	-	1,727
Total		
At 1 January (net of accumulated amortisation)	4,428	6,030
Amortisation	-	-
Impairment	(4,428)	(1,602)
At 31 December (net of accumulated amortisation)	-	4,428
At 31 December		
Cost (gross) carrying amount		
- Goodwill	9,932	9,932
- Other intangibles	2,619	2,619
Total cost	12,551	12,551
Accumulated amortisation and impairment		
- Goodwill	(9,932)	(7,231)
- Other intangibles	(2,619)	(892)
Total accumulated amortisation and impairment	(12,551)	(8,123)
Net carrying amount	-	4,428

(b) Description of the Group's intangible assets and goodwill

Goodwill
After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment (refer to section (c) of this note).

(c) Impairment testing of assets

Goodwill acquired through business combinations and acquisitions has been allocated to their respective cash generating units (CGUs) for impairment testing based on a value in use calculation. The CGU's tested for impairment have been calculated on cash flow projections approved by senior management over a five year period, including a terminal value, which is appropriate given the nature of the CGU. During 2011 the Chef's Partner business was closed and all goodwill fully impaired. The pre-tax discount rate applied in December 2010 accounts was 15.0% and the growth rate used to extrapolate the cash flows was 5.0%.

An impairment loss of $2,701,000 (2010: $1,601,000) on goodwill was recognised during the year. The impaired goodwill relates to Chef's Partner. The impairment loss has been included in the income statement in the line item 'Loss from discontinued operations after related income tax benefit'.

19. CURRENT LIABILITIES — TRADE AND OTHER PAYABLES

	2011 $000	2010 $000
Trade payables	8,168	12,773
Other payables	17,623	15,828
	25,791	28,601

Trade payables are non-interest bearing and are normally settled on agreed terms which are generally up to 30 days. Other payables are non-interest bearing and have an average term of three months.

(a) Fair value

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

(b) Foreign exchange and liquidity risk

Information regarding foreign exchange and liquidity risk exposure is set out in note 3.

20. CURRENT LIABILITIES — PROVISIONS

	2011 $000	2010 $000
Annual leave	1,704	1,599
Long service leave	606	558
	2,310	2,157

21. NON-CURRENT LIABILITIES — PROVISIONS

	2011 $000	2010 $000
Long service leave	444	525

22. DERIVATIVE FINANCIAL INSTRUMENTS

	2011	2010
Current assets		
Forward currency contracts	30	651
Current liabilities		
Forward currency contracts	2	-
Interest rate swap contracts	4,469	4,655
	4,471	4,655

Forward commodity contracts and currency options

The Group has entered into forward currency exchange traded contracts which are economic hedges but do not satisfy the requirements for hedge accounting.

	Notional Amounts (AUD)		Average Exchange Rate	
	2011 $000	2010 $000	2011 AUD/USD	2010 AUD/USD
Sell FX/Buy AUD				
Sell USD Maturity 0-12 Months	12,527	24,214	1.0247	0.9635
Sell JPY Maturity 0-12 Months	45	-	79.1331	-
Sell EUR Maturity 0-12 Months	204	-	0.7145	-
Buy FX/Sell AUD				
Buy USD Maturity 0-12 Months	-	10,098	-	0.9705

22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

These contracts are fair valued by comparing the contracted rate to the market rates for contracts with the same length of maturity. All movements in fair value are recognised in profit or loss in the period they occur. The net fair value gain on foreign currency derivatives during the year was $339,000 (2010: $238,000).

Interest rate swaps

The Group has entered into interest rate swaps which are economic hedges. The $80 million swaps do not satisfy the requirements for hedge accounting. The $200 million swaps have been designated as effective interest rate swaps under AASB 139 and therefore satisfy the requirements of hedge accounting.

As at 31 December, the notional principal amounts and period of expiry of the interest rate swap contracts are as follows:

	2011 $000	2010 $000
0-1 years	80,000	-
1-3 years	200,000	280,000

These swaps are subject to mark to market valuations so that they are recorded at fair value. The valuation takes into account interest differentials between fixed rate and market variable rate and time to maturity. All movements in fair value are recognised in profit or loss in the period they occur. The net fair value profit on interest rate swaps during the year was $2,435,000 (2010: $4,035,000). Refer to note 3 for further information regarding interest rate and credit risk exposure.

23. INTEREST-BEARING LOANS AND BORROWINGS

	2011 $000	2010 $000
Current		
Obligations under finance leases	1,421	956
$25,000,000 bank loan	-	20,000
$85,000,000/$60,000,000 bank loan	55,000	60,000
Other	-	5,670
	56,421	86,626
Non-current		
Obligations under finance leases	6,148	1,661
$270,000,000 bank loan	270,000	269,062
$35,000,000 bank loan	35,000	-
	311,148	270,723

$25,000,000 bank loan
The loans were renewed during April 2011 and replaced with a $35,000,000 bank loan.

$85,000,000/$60,000,000 bank loan
This is a club loan facility which is secured. The loans are repayable on 30 November 2012. The effective interest rate is 8.53% (2010: 8.65%). It is intended that this loan will be renewed prior to the maturity date.

$270,000,000 bank loan
This is a club loan facility which is secured. The loans are repayable on 31 January 2013. The effective interest rate is 8.53% (2010: 8.65%). It is intended that this loan will be renewed prior to the maturity date.

$35,000,000 bank loan
This is a club loan facility which is secured. The loans are repayable on 31 March 2014. The effective interest rate is 8.53%. It is intended that this loan will be renewed prior to the maturity date.

Prior to year end the Company commenced negotiations to establish a banking syndicate to replace the existing club facility. Negotiations have been completed at the date of this report and commitments have been received from four banks to participate in the syndicate with aggregate committed lines of $450 million, subject to completion of proposed transaction documents in a materially acceptable form. The syndicate has been arranged by National Australia Bank under a mandate provided by the Company. The participating banks will be National Australia Bank (also acts as Agent), Commonwealth Bank, ANZ Bank, and Rabobank. It is anticipated documentation will be formally approved and executed shortly after these accounts are finalised and the new facility will be drawn down once all conditions precedent have been met.

(a) Fair values
The carrying amount of the Group's current and non-current borrowings approximates their fair value.

(b) Interest rate, foreign exchange and liquidity risk
Details regarding interest rate, foreign exchange and liquidity risk is disclosed in note 3.

23. INTEREST-BEARING LOANS AND BORROWINGS (continued)

(c) Assets pledged as security

Financing facilities are provided on a secured basis, with security given over all fixed and floating assets.

(d) Defaults and breaches

During the current and prior years, there were no defaults or breaches on any of the loans.

(e) Financing arrangements

The Group has access to the following financing facilities:

	Accessible $000	Drawn-down $000	Unused $000
2011			
$35,000,000 bank loan	35,000	35,000	-
$85,000,000 bank loan	85,000	55,000	30,000
$270,000,000 bank loan	270,000	270,000	-
Guarantee facility	81	80	1
Total financing facilities	390,081	360,080	30,001
2010			
$25,000,000 bank loan	25,000	20,000	5,000
$60,000,000 bank loan	60,000	60,000	-
$270,000,000 bank loan	270,000	270,000	-
Guarantee facility	65	64	1
Total financing facilities	355,065	350,064	5,001

Financial covenants in place include debt cover ratios, gearing ratio and consolidated net worth.

24. CONTRIBUTED EQUITY

	2011 $000	2010 $000
Ordinary shares – issued and fully paid (a)	238,296	172,785
Total contributed equity	238,296	172,785

(a) Ordinary shares

Movement in ordinary shares on issue

There has been no movement in ordinary shares on issue in the current and prior period.

Date	Details	Number of shares	Issue price	2011 $000
31 December 2010	Opening balance	264,264,459		172,785
10 May 2011	Share placement	39,639,668	1.42	56,288
10 June 2011	Share purchase plan	8,033,008	1.42	11,408
02 August 2011	Shares issued under executive option plan (EOP)	924,000	1.00	924
	Transaction costs arising on share issue			(3,109)
31 December 2011	Balance	312,861,135		238,296

(b) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management monitors capital using the gearing ratio (net debt divided by total capital plus net debt). The target for the Group's gearing ratio is between 30% to 40%. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents, excluding discontinued operations.

	2011 $000	2010 $000
Interest bearing loans and borrowings	367,569	357,349
Trade and other payables	25,791	28,601
Less cash and cash equivalents	(23,369)	(17,045)
Net debt	369,991	368,905
Total equity	671,987	592,634
Total capital	1,041,978	961,539
Gearing ratio	36%	38%

For the Group's financial risk management objectives and policies refer note 3.

25. RETAINED EARNINGS AND RESERVES

(a) Movements in retained earnings were as follows:

	2011 $000	2010 $000
At 1 January	72,167	71,263
Net profit	10,525	904
At 31 December	82,692	72,167

(b) Other reserves

	Asset Revaluation Reserve $000	Capital Profits Reserve $000	Cash Flow Hedge Reserve $000	Employee Equity Benefits Reserve $000	Total $000
At 1 January 2010	327,728	68,484	-	4,849	401,061
Revaluation of land and buildings	(53,384)	-	-	-	(53,384)
Share based payment	-	-	-	5	5
At 31 December 2010	274,344	68,484	-	4,854	347,682
Revaluation of land and buildings	9,543	-	-	-	9,543
Loss on revaluation of plant and equipment	(986)	-	-	-	(986)
Adjustment to reset tax cost base	(3,100)	-	-	-	(3,100)
Transfer of realised capital profits	(9,739)	9,739	-	-	-
Net movement in cash flow hedges	-	-	(2,249)	-	(2,249)
Share based payment	-	-	-	109	109
At 31 December 2011	270,062	78,223	(2,249)	4,963	350,999

(i) Nature and purpose of reserves

Asset revaluation reserve
The asset revaluation reserve is used to record increments and decrements in the fair value of land and buildings to the extent that they offset one another. The reserve can only be used to pay dividends in limited circumstances.

Capital profits reserve
The capital profits reserve is used to accumulate realised capital profits. The reserve can be used to pay dividends.

Cash flow hedge reserve
The cash flow hedge reserve is used to record the portion of movements in fair value of a hedging instrument in a cash flow hedge that is recognised in other comprehensive income.

Employee equity benefits reserve
The employee equity benefits reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration. Refer to note 30 for further details of these plans.

26. CASH FLOW STATEMENT RECONCILIATION

(a) Reconciliation of net profit after tax to net cash flows from operations

	2011 $000	2010 $000
Net profit after income tax	10,525	904
Adjustments for:		
Depreciation	8,657	8,382
Net revaluation decrement recognised in the income statement	555	562
Impairment of goodwill	3,183	1,602
Impairment of property, plant and equipment	-	2,356
Gain on sale of property, plant and equipment	(5,305)	(343)
(Increment)/decrement in net market value of livestock	(72,369)	(60,376)
Changes in assets and liabilities:		
(Increase)/decrease in inventories	(2,565)	(249)
(Increase)/decrease in trade and other receivables	(5,075)	(6,945)
(Increase)/decrease in prepayments and other assets	(653)	(334)
(Increase)/decrease in deferred tax assets	1,608	(198)
(Decrease)/increase in deferred tax liabilities	3,066	294
(Decrease)/increase in current tax liability	(627)	819
(Decrease)/increase in trade and other payables	(2,808)	9,979
(Decrease)/increase in interest rate swaps	(2,435)	(4,036)
(Decrease)/increase in provisions	188	(1,255)
Net cash used in operating activities	(64,055)	(48,838)

(b) Non-cash financing and investing activities

	2011 $000	2010 $000
Acquisition of assets by means of finance leases	6,040	2,224
Share-based payments (note 30)	117	5

(c) Cash flows from investing activities

Included in proceeds from sale of property, plant and equipment is $21,585,000 from the sale of the Meteor Downs station.

27. RELATED PARTY DISCLOSURES

(a) Other Director transactions

Directors of the Group and Directors of its related parties, or their Director-related entities, conduct transactions with entities within the Group that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonable to expect the entity would have adopted if dealing with the Director or Director-related entity at arm's length in similar circumstances.

These transactions include the following and have been quantified below where the transactions are considered likely to be of interest to users of these financial statements.

Mr N. Burton Taylor is a Principal of Hillgrove Pastoral Company (Hillgrove). Hillgrove has entered into sale arrangements with the Group with respect to livestock on commercial terms and conditions no more favourable than those available to other suppliers.

The following table provides the total amount of transactions that were entered into with related parties for the years ended 31 December 2011 and 2010.

Related party		Sales to Related Parties $	Purchases From Related Parties $	Lease Payments From Related Parties $	Amounts Owed by Related Parties $	Amounts Owed to Related Parties $
Mr. N. Burton Taylor and associated entities	2011	3,260	613,686	-	-	-
	2010	-	1,152,425	-	-	-

27. RELATED PARTY DISCLOSURES (continued)

(b) Transactions with related parties in the wholly owned Group

Loans
Loans are made by the parent entity to wholly owned subsidiaries. The loans are repayable on demand. No interest has been charged on these loans by the parent entity for the current financial period (31 December 2010: nil). The parent entity does not expect to call these loans within the next 12 months.

(c) Transactions with other related parties

Loans
No loans were made with other related parties during the year ended 31 December 2011 (31 December 2010: nil).

All transactions with other related parties are conducted on commercial terms and conditions.

(d) Ultimate parent entity

The ultimate controlling entity of the Group is Australian Agricultural Company Limited.

28. CONTROLLED ENTITIES

The consolidated financial statements at 31 December 2011 include the following controlled entities.

Name of controlled entity	Notes	Place of Incorporation	2011 % of shares held	2010 % of shares held
Parent Entity				
Australian Agricultural Company Limited	(a)	Australia		
A. A. Company Pty Ltd	(a)	Australia	100	100
Austcattle Holdings Pty Ltd	(a)	Australia	100	100
A. A. & P. Joint Holdings Pty Ltd	(a)	Australia	100	100
Shillong Pty Ltd	(a)	Australia	100	100
James McLeish Estates Pty Limited	(a)	Australia	100	100
Wondoola Pty Ltd	(a)	Australia	100	100
Waxahachie Pty Ltd	(a)	Australia	100	100
Naroo Pastoral Company Pty Limited	(a)	Australia	100	100
AACo Nominees Pty Limited	(a)	Australia	100	100
Chefs Partner Pty Ltd	(a)	Australia	100	100
Polkinghornes Stores Pty Limited		Australia	100	100
North Australian Beef Limited		Australia	100	-
AACO Risk Management Pty Limited		Australia	100	-

The parent entity, Australian Agricultural Company Limited, a public Company, is domiciled in Brisbane, Australia.

The registered office and principal place Of business is located at:	Level 1 299 Coronation Drive Brisbane Qld 4064

(a) These companies have entered into a deed of cross guarantee dated 22 November 2006 with Australian Agricultural Company Limited which provides that all parties to the deed will guarantee to each creditor payment in full of any debt of each Company participating in the deed on winding-up of that Company. As a result of a Class Order issued by the Australian Securities and Investments Commission, these companies are relieved from the requirement to prepare financial statements.

The Consolidated Income Statement and Consolidated Statement of Financial Position of all entities included in the class order “closed Group” are set out at footnote (b).

28. CONTROLLED ENTITIES (continued)

(b) Financial information for class order Closed Group

	2011 $000	2010 $000
Current Assets		
Cash and cash equivalents	23,369	17,045
Trade and other receivables	25,110	17,843
Inventories	25,146	18,292
Biological assets – livestock	168,354	155,136
Derivatives	30	651
Other assets	723	365
Total Current Assets	242,732	209,332
Non-Current Assets		
Receivables	9	9
Biological assets – livestock	315,329	258,466
Property, plant and equipment	606,897	598,925
Investment – at cost	50	50
Deferred tax assets	2,786	3,519
Intangible assets	-	4,428
Total Non-Current Assets	925,071	865,397
Total Assets	1,167,803	1,074,729
Current Liabilities		
Trade and other payables	25,793	28,601
Provisions	2,310	2,157
Interest bearing liabilities	56,421	86,626
Derivatives	4,469	4,655
Current tax liabilities	192	819
Total Current Liabilities	89,185	122,858
Non-Current Liabilities		
Provisions	444	525
Interest bearing liabilities	311,148	270,723
Deferred tax liabilities	92,162	85,112
Total Non-Current Liabilities	403,754	356,360
Total Liabilities	492,939	479,218
Net Assets	674,864	595,511
Equity		
Contributed equity	238,296	172,785
Reserves	350,999	347,682
Retained earnings	85,569	75,044
Total Equity	674,864	595,511

28. CONTROLLED ENTITIES (continued)

(b) Financial information for class order Closed Group (continued)

Income Statement of the Closed Group:

	2011 $000	2010 $000
Revenue from continuing operations		
Cattle sales	230,488	156,892
Meat sales	135,151	114,282
Crop income	12,000	2,910
	377,639	274,084
Cattle growth	66,224	45,580
Cattle fair value adjustments	105,153	80,644
	549,016	400,308
Deemed cost of cattle sold	(230,488)	(156,892)
Cattle expenses	(35,011)	(19,184)
Feedlot cattle expenses	(27,796)	(28,347)
Cost of meat sold	(130,146)	(103,504)
Crop costs	(6,720)	(3,247)
Gross operating margin	118,855	89,134
Other revenue	1,894	1,940
Other income	5,974	4,581
Expenses		
Administration and other costs	(13,060)	(8,552)
Business development and other non-station operating costs	(1,382)	(1,261)
Employee expenses	(29,401)	(24,036)
Lease and property related costs	(3,899)	(4,075)
Other station operating costs	(18,041)	(15,431)
Profit from continuing operations before finance costs, income tax, depreciation, amortisation and impairment	60,940	42,300
Depreciation, amortisation and impairment	(9,750)	(11,050)
Profit from continuing operations before finance costs and income tax expense	51,190	31,250
Net finance costs	(31,067)	(24,545)
Profit from continuing operations before income tax	20,123	6,705
Income tax expense	(5,712)	(2,380)
Profit from continuing operations after related income tax expense	14,411	4,325
Loss from discontinued operations after related income tax benefit	(3,886)	(3,421)
Net profit after tax expense	10,525	904

29. KEY MANAGEMENT PERSONNEL

(a) Compensation for key management personnel

	2011 $	2010 $
Short-term employee benefits	2,951,430	2,442,565
Post-employment benefits	316,086	258,756
Other long-term benefits	-	44,875
Termination benefits	9,785	201,146
Share-based payment	106,811	(8,166)
Total compensation	3,384,112	2,939,176

(b) Option holdings of key management personnel

The table below summarises the movements during the year in holdings of option and performance right interests for the key management personnel in the Company for the period.

2011	Balance at beginning of period 1 Jan 11	Rights granted as remuneration	Net change Other[1]	Options exercised	Balance at end of period 31 Dec 11	Not vested and not exercisable	Vested and exercisable
	Number	Number	Number	Number	Number	Number	Number
Directors							
D. Farley	-	410,023	-	-	410,023	410,023	-
Executives							
T. Setter	-	28,894	-	-	28,894	28,894	-
B. Bennett	227,896	20,844	-	-	248,740	20,844	227,896
P. Dempsey	347,633	12,487	-	-	360,120	12,487	347,633
G. Dober	-	6,239	-	-	6,239	6,239	-
Total	575,529	478,487	-	-	1,054,016	478,487	575,529

[1]Includes forfeitures.

No other Directors or executives held options during the period.

2010	Balance at beginning of period 1 Jan 10	Rights granted as remuneration	Net change Other[4]	Options exercised	Balance at end of period 31 Dec 10	Not vested and not exercisable	Vested and exercisable
	Number	Number	Number	Number	Number	Number	Number
Executives							
B. Bennett	227,896	-	-	-	227,896	47,980	179,916
H. Burke[1]	224,949	-	(224,949)	-	-	-	-
P. Dempsey	347,633	-	-	-	347,633	58,586	289,047
T. Gallagher[2]	407,647	-	(407,647)	-	-	-	-
G. Gibbons[1]	136,166	-	(136,166)	-	-	-	-
A. Jones[3]	299,953	-	(299,953)	-	-	-	-
Total	1,644,244	-	(1,068,715)	-	575,529	106,566	468,963

[1] H. Burke and G. Gibbons did not meet the definition of key management personnel under AASB 124 for the 2010 financial year as a result of a management restructure.
[2] T. Gallagher resigned on 17 August 2010.
[3] A. Jones resigned on 10 December 2010.
[4] Options have since been forfeited.

29. KEY MANAGEMENT PERSONNEL (continued)

(b) Share holdings of key management personnel

2011	Balance at beginning of period 1 Jan 11	Granted as remuneration	Exercise of options	Net change other	Balance at end of period 31 Dec 11
	Number	Number	Number	Number	Number
Directors					
D. McGauchie	37,000	-	-	161,689	198,689
D. Farley	212,500			126,563	339,063
N. Burton Taylor	6,274,113	-	-	31,689	6,305,802
C. Roberts	50,000	-	-	10,563	60,563
Datuk Abdul Samad[1]	10,000	-	-	(10,000)	-
Executives					
P. Dempsey	161,705	-	-	-	161,705
Total	6,745,318	-	-	320,504	7,065,822

[1] Datuk Abdul Samad resigned on 26 January 2011.

2010	Balance at beginning of period 1 Jan 10	Granted as remuneration	Exercise of options	Net change other	Balance at end of period 31 Dec 10
	Number	Number	Number	Number	Number
Directors					
D. McGauchie[1]	-	-	-	37,000	37,000
D. Farley	-	-	-	212,500	212,500
N. Burton Taylor	7,348,530	-	-	(1,074,417)	6,274,113
C. Roberts	50,000	-	-	-	50,000
Datuk Abdul Samad[1]	-	-	-	10,000	10,000
S. Lonie[2]	93,750	-	-	(93,750)	-
P. Hughes[3]	100,000	-	-	(100,000)	-
Executives					
P. Dempsey	161,705	-	-	-	161,705
Total	7,753,985	-	-	(1,008,667)	6,745,318

[1] D. McGauchie and Datuk Abdul Samad were appointed Directors on 19 May 2010 and 13 April 2010 respectively.
[2] S.E. Lonie resigned as a Director on 13 April 2010.
[3] P. Hughes resigned as a Director 19 May 2010.

No other Directors or executives held shares during the period.

All equity transactions with Directors and executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

30. SHARE-BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

	2011 $000	2010 $000
Expense arising from equity-settled share-based payment transactions	109	5

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2011 and 2010. During the year the Board approved a new Performance Rights Plan (PRP) for long term senior executives' incentives (LTI). The PRP is in addition to the Executive Option Plan (EOP) and became effective for the 2011 financial year.

(b) Executive Option Plan (EOP)

The Group has one Executive Option Plan (EOP) for the granting of non-transferable options to the Managing Director/ Chief Executive Officer, senior executives and middle management with more than twelve months' service at the grant date. There will be no further grants under this Plan.

Chief Executive Officer – Executive Options

No options were issued to Mr. D. Farley in 2011 and 2010.

Mr. D. Farley (CEO) was appointed on 1 December 2009 and under the terms of his executive service agreement he is entitled to an LTI benefit up to a maximum of 50% of fixed remuneration.

Senior Executive - Executive Options

There were 924,000 options exercised during the period by a former senior executive.

No options were granted to senior executives in 2011 and 2010.

Middle Management – Executive Options

No options were granted to middle management in 2011 and 2010.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of share options previously issued under the EOP.

	2011 No.	2011 WAEP $	2010 No.	2010 WAEP $
Outstanding at the beginning of the year	5,628,051	2.29	9,634,840	1.97
Granted during the year	-	-	-	-
Forfeited during the year	(730,644)	2.64	(4,006,789)	1.53
Exercised during the year	(924,000)	1.00	-	-
Outstanding at the end of the year	3,973,407	2.52	5,628,051	2.29
Exercisable at the end of the year	3,973,407	2.52	5,211,243	2.21

Terms of the Executive Option Plan
An employee whose employment terminates prior to the vesting of any tranche will lose their unvested option entitlement, unless otherwise determined by the Board.

Under the EOP where a participant ceases employment prior to the vesting of their award, the options are forfeited unless the Board applies its discretion to allow vesting at or post cessation of employment in appropriate circumstances.

In the event of a takeover or change in control of the Company:

(a) 50% of unvested options made within the last three years prior to the change in control, would vest, as soon as the Board forms the opinion that the takeover or change in control will occur; and

(b) all or part of the other 50% of the unvested options made within the last three years may be vested by the Board as determined in its absolute discretion.

30. SHARE-BASED PAYMENT PLANS (continued)

(b) Executive Option Plan (EOP) (continued)

The outstanding balance as at 31 December 2011 is represented by:

- 250,000 options over ordinary shares with an exercise price of $1.00 each;
- 350,000 options over ordinary shares with an exercise price of $1.39 each;
- 1,482,792 options over ordinary shares with an exercise price of $2.09 each;
- 76,000 options over ordinary shares with an exercise price of $3.15 each; and
- 1,814,615 options over ordinary shares with an exercise price of $3.27 each.

Share options issued under the EOP and outstanding at the end of the year have the following exercise prices:

Expiry Date	Exercise Price ($)	2011 No.	2010 No.
06 August 2011	1.00	-	949,000
01 January 2013	2.09	1,192,167	1,535,440
01 January 2013	3.15	76,000	76,000
16 December 2013	1.00	250,000	250,000
01 January 2014	3.27	1,514,615	1,876,986
31 March 2015	1.39	350,000	350,000
01 January 2018	2.09	290,625	290,625
01 January 2019	3.27	300,000	300,000
Total		3,973,407	5,628,051

(c) Employee share plan (ESP)

On 12 September 2005 the Group introduced an employee share plan (ESP). This plan allows shares in Australian Agricultural Company Limited to be provided to all employees (excluding those participating in the EOP and Directors) with greater than one year of service up to the value of $1,000.

No shares were issued to employees under the ESP in 2011 (2010: nil).

At 31 December 2011, the ESP holds 96,596 ordinary shares in Australian Agricultural Company Limited (31 December 2010: 96,596).

The fair value of the employee benefit provided under the ESP is estimated at cost at the date of grant.

(d) Performance rights plan

During 2011 the Group introduced a performance rights plan. The purpose of the plan is to assist in the reward, retention and motivation of Directors, Employees, and any other person determined by the Board in its sole and absolute discretion and, attract new employees and/or officers to the Group. The performance rights have a nil exercise price. Vesting of the performance rights is dependent on the satisfaction of a service vesting condition and/or a performance condition. Any performance rights which fail to meet the service condition on the vesting date will lapse immediately. Once the performance rights have vested, they are automatically exercised and shares in AAco issued to either the AAco Employee Share Scheme Trust (EST) or acquired on-market by the EST Trustee on behalf of the participant.

The following table summarises movements in performance rights for the year ended 31 December 2011:

Grant date	Expiry date	Exercise price	No. of rights 31 Dec 2010	Rights granted during year	Rights exercised during year	Rights lapsed during year	No. of rights at 31 Dec 2011	No. of rights exercisable 31 Dec 2011
19 Sept 2011	30 April 2012	Nil	-	43,950	-	-	43,950	-
19 Sept 2011	30 April 2013	Nil	-	43,944	-	-	43,944	-
19 Sept 2011	30 April 2013	Nil	-	105,271	-	-	105,271	-
19 Sept 2011	30 April 2013	Nil	-	105,270	-	-	105,270	-
19 Sept 2011	30 April 2014	Nil	-	99,741	-	-	99,741	-
19 Sept 2011	30 April 2014	Nil	-	99,741	-	-	99,741	-
			-	497,917	-	-	497,917	-

The weighted average remaining contractual life for the rights as at 31 December 2011 is 673 days.

The weighted average fair value of rights granted during the year was $1.221.

87,894 of the rights issued were in respect of the 2010 year.

30. SHARE-BASED PAYMENT PLANS (continued)

(d) Performance rights plan (continued)

The following table lists the inputs to the models used for the performance rights:

Grant date	Expected life of rights (days)	Share price at grant date	Exercise price	Expected volatility	Expected dividend yield	Risk free interest rate	Weighted average fair value of options granted	Model used
19 Sept 2011	194	$1.410	-	32.50%	-	3.96%	$1.4102	Binomial
19 Sept 2011	559	$1.410	-	32.50%	-	3.91%	$1.4106	Binomial
19 Sept 2011	559	$1.410	-	32.50%	-	3.91%	$0.8454	Monte Carlo
19 Sept 2011	559	$1.410	-	32.50%	-	3.91%	$1.4106	Monte Carlo
19 Sept 2011	924	$1.410	-	32.50%	-	3.58%	$1.0624	Monte Carlo
19 Sept 2011	924	$1.410	-	32.50%	-	3.58%	$1.4109	Monte Carlo

Performance Rights issued are subject to the following terms and conditions:

1. External Performance Condition (TSR outperformance)

50% of the Performance Rights are subject to an external Performance Condition, namely, AAco's Total Shareholder Return (TSR) performance relative to the S&P/ASX Small Ordinaries Accumulation Index (ASX Code: XSOAI) measured over a three year Vesting Period.

Vesting of the Performance Rights subject to the TSR outperformance condition will be calculated based on the following percentile results in the table below:

AAco TSR Ranking versus S&P/ASX Small Ords Accumulation Index (XSOAI)	% of Performance Rights to vest
Below the 50th percentile	0% vest
At the 50th percentile	50% vest
Between the 50th and 75th percentile	2% vesting on a straight line interpolation for each percentile ranking
At or above the 75th percentile	100% vest

The Company's TSR will be measured by an independent third party over the Vesting Period. The testing of the TSR outperformance condition will occur at the end of the Vesting Period.

2. Internal Performance Condition (EPS)

50% of the Performance Rights are subject to an internal Performance Condition based on the Company's earnings per share (EPS).

EPS is defined as Adjusted Net after Tax Profit per Ordinary Share, where Adjusted Net after Tax Profit is calculated as follows:

- Annual reported Net Profit after Tax Profit
- Less: Valuation adjustments
- Less: any adjustment deemed fair and appropriate by the Board, in the Board's absolute discretion.

The Board in its absolute discretion may vary this formula from year to year to reflect the changing nature of the Group's operations and its operating environment.

Vesting of the Performance Rights subject to the EPS condition will be calculated based on the following compound % growth rates over the three financial years following the base year the Performance Rights are established.

EPS Compound Growth Rate	% of Performance Rights to vest
Compound growth rate of less than 7.5% p.a.	0% vest
Compound growth rate of at least 7.5% p.a.	50% vest
Compound growth rate between 7.5% p.a. and 10% p.a.	2% vesting on a straight line interpolation for each 0.1% increment in EPS.
Compound growth rate of 10% p.a. or more	100% vest

30. SHARE-BASED PAYMENT PLANS (continued)

(d) Performance rights plan (continued)

3. Termination and change in control provisions

Under the terms of the LTI if the Managing Director/Chief Executive Officer ceases employment with the Company and holds Performance Rights, the ability of the Managing Director/Chief Executive Officer to retain their Performance Rights will depend on the circumstances in which the employment ceases. The Plan Rules define Bad Leavers and Good Leavers.

If the executive was a Bad Leaver, then the Performance Rights will be automatically forfeited. If the executive was a Good Leaver, then the Board will consider the circumstances of the cessation of employment and may exercise its discretion to allow some or all of the Performance Rights to vest (and be exercised).

A change of control event occurs when any person, either alone or together with any “associate” (as defined in the Australian Corporations Act) who does not hold a relevant interest in more than 50% of the issued shares of the Company acquires a relevant interest in more than 50% of the issued shares, or the Board concludes that there has been a change in control of the Company then one of the following will occur in respect of all unvested Performance Rights or Deferred Equity Awards. The Performance Rights or Deferred Equity Awards will either vest on a pro rata basis or at the discretion of the Board in certain circumstances.

31. COMMITMENTS

(a) Future minimum lease payments under non-cancellable operating leases at 31 December are as follows:

	2011 $000	2010 $000
Leased land and buildings:		
Not later than one year	2,361	1,020
Later than one year but not later than five years	3,318	722
Total leased land and buildings	5,679	1,742
Leased plant and equipment:		
Not later than one year	-	990
Later than one year but not later than five years	-	-
Total leased plant and equipment	-	990

Property, plant and equipment lease rental payments are generally fixed.

(b) Finance lease expenditure contracted for is payable as follows:

The Group has finance leases for motor vehicles. Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	2011 $000	2010 $000
Within one year	700	956
After one year but not more than five years	2,853	1,660
Total minimum lease payments	3,553	2,616

(c) Equipment finance contracted for is payable as follow:

The Group has asset finance for equipment. Future minimum payments under equipment finance together with the present value of the net minimum finance payments are as follows:

	2011 $000	2010 $000
Within one year	721	-
Later than one year but not later than five years	3,295	-
Total equipment finance	4,016	-

31. COMMITMENTS (continued)

(d) Other commitments

The Group had entered into forward purchase contracts for $5,469,635 worth of grain commodities as at 31 December 2011 (2010: $19,563,000). The contracts are expected to be settled within 12 months from balance date.

The Group had entered into forward purchase contracts for $7,758,800 worth of cattle as at 31 December 2011 (2010: $1,054,000). The contracts are expected to be settled within 12 months from balance date.

The Group has entered into contracts to deliver 13,000 (2010: 9,500) bales of cotton between May 2012 and July 2012 with a contract value of $7,256,635 (2010: $4,895,990).

The Group has entered into a commitment to purchase a plot of land for $13,275,000 near Darwin to develop and operate an abattoir. This commitment is contingent on the Group receiving a development approval that is completely satisfactory to the Group. Other than commitments necessary to finalise the development approval no other commitments have been made at the date of this report. The Group has limits established in the new syndicate facilities (refer Note 36) to provide financing for the project once a satisfactory development approval is received.

32. CONTINGENCIES

(a) Guarantees

	2011 $000	2010 $000
Contingent liabilities at balance date, not otherwise provided for in these financial statements are categorised as follows:		
Bank guarantees provided in relation to premises	80	64

(b) Native title claims

At 31 December 2011 there are a number of native title claims over some of the Group's cattle properties. Negotiations are continuing with stakeholders to resolve these claims. The Directors are not aware of any native title rights that may be found to co-exist with the Group's rights and as such they do not expect any impact on the business to result from native title claims.

(c) Legal claim

In 2008, the Company commenced legal action against Elders Limited relating to the purchase of product during the period 2002 to 2005. During 2010 a settlement was reached with Elders Limited. The settlement amount of $4,000,000 comprises a cash component and a payment in kind component.

33. AUDITORS' REMUNERATION

Remuneration received, or due and receivable, by the auditor, Ernst & Young, of the parent entity for:

	2011 $	2010 $
An audit or review of the financial report of the entity and any other entity in the consolidated Group	487,703	457,570
Other services in relation to the entity and any other entity in the consolidated Group		
• Assurance services	-	3,630
• Advisory services	27,500	-
• Tax related services	11,330	-
	526,533	461,200

34. SUPERANNUATION COMMITMENTS

The Group contributes on behalf of employees to superannuation funds covering substantially all of its employees, which provide benefits on a cash accumulation basis, for employees on retirement, resignation or disablement, or to their dependents on death.

In addition, the Group is required to provide a minimum level of superannuation support for employees under the Australian Superannuation Guarantee legislation.

35. INFORMATION RELATING TO THE PARENT ENTITY

	2011 $000	2010 $000
Current assets	73	28
Non-current assets	777,184	726,136
Total assets	777,257	726,164
Current liabilities	65,144	91,574
Non-current liabilities	317,933	283,543
Total liabilities	383,077	375,117
Net assets	394,180	351,047
Issued capital	242,920	177,409
Reserves		
Asset revaluation reserve	45,355	44,783
Capital profits reserve	110,777	110,777
Cash flow hedge reserve	4,963	4,854
Employee equity benefits reserve	(2,249)	-
(Accumulated losses)/retained earnings	(7,586)	13,224
Total equity	394,180	351,047
Loss of the parent entity	(20,810)	(16,676)
Total comprehensive loss of the parent entity	(22,476)	(20,061)

(a) Guarantees entered into by the parent entity

Australian Agricultural Company Ltd and the wholly owned entities listed in note 28 are parties to a deed of cross guarantee as described in note 28. The nature of the deed of cross guarantee is such that each Company which is party to the deed guarantees, to each creditor, payment in full of any debt in accordance with the deed of cross guarantee. No deficiency of net assets existed for the Group as at 31 December 2011.

No liability was recognised by Australian Agricultural Company Ltd in relation to these guarantees, as the fair value of the guarantees is immaterial.

(b) Contingent liabilities of the parent entity

	2011 $000	2010 $000
Guarantees and indemnities		
Bank guarantees provided in relation to premises	80	64

(c) Contractual commitments for the acquisition of property, plant or equipment

Australian Agricultural Company Ltd did not have any commitments for the acquisition of property, plant and equipment as at 31 December 2011 or 31 December 2010.

36. SUBSEQUENT EVENTS

The Board has approved the Group entering into the lease of 4,876ha of land on a property called Lynora Downs located near Springsure, Queensland. The term is for a period of up to 5 years where each year is renewable at the Group's option. The property will be used for farming and each year's lease payment is determined by water available for each year. The arrangement is subject to mortgagee's consent.

Prior to year end the Company commenced negotiations to establish a banking syndicate to replace the existing club facility. Negotiations have been completed at the date of this report and commitments have been received from four banks to participate in the syndicate with aggregate committed lines of $450 million, subject to completion of proposed transaction documents in a materially acceptable form. The syndicate has been arranged by National Australia Bank under a mandate provided by the Company. The participating banks will be National Australia Bank (also acts as Agent), Commonwealth Bank, ANZ Bank, and Rabobank. Documentation will be executed shortly after these accounts are finalised and the new facility will be drawn down once all conditions precedent have been met.

There have been no other significant events after the balance date which require disclosure in the financial report.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of the Australian Agricultural Company Limited, we state that:

1. In the opinion of the Directors:

   a) The financial statements and notes of Australian Agricultural Company Limited for the financial year ended 31 December 2011 are in accordance with the *Corporations Act 2001*, including:

      (i) Giving a true and fair view of its financial position as at 31 December 2011 and of its performance for the year ended on that date.

      (ii) Complying with Accounting Standards and *Corporations Regulations 2001*.

   b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(a).

   c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2011.

3. In the opinion of the Directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 28 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

D. McGauchie
Chairman

Brisbane
31 January 2012

ERNST & YOUNG

1 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
www.ey.com/au

Independent auditor's report to the members of Australian Agricultural Company Limited

Report on the financial report

We have audited the accompanying financial report of Australian Agricultural Company Limited, which comprises the consolidated statement of financial position as at 31 December 2011, the income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Liability limited by a scheme approved
under Professional Standards Legislation

ERNST & YOUNG

Opinion

In our opinion:

a. the financial report of Australian Agricultural Company Limited is in accordance with the Corporations Act 2001, including:

   i giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 13 to 26 of the directors' report for the year ended 31 December 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Australian Agricultural Company Limited for the year ended 31 December 2011 complies with section 300A of the Corporations Act 2001.

Ernst & Young

Mike Reid
Partner
Brisbane
31 January 2012

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in the annual report is as follows. The information is current as at 27 January 2012.

(a) Distribution of equity securities

Ordinary share capital

312,861,135 fully paid ordinary shares are held by 7295 individual shareholders

All ordinary shares carry one vote per share and carry the rights to dividends.

The number of shareholders, by size of holding are:

Number of Shares	Number of Shareholders
1 to 1,000	1,429
1,001 to 5,000	3,153
5,001 to 10,000	1,232
10,001 to 100,000	1,386
100,001 and Over	95
TOTAL	**7,295**

(b) Twenty largest holders of quoted equity securities

The names of the twenty largest holders of quoted shares as shown in the Company's Share Register are:

	Number	Percentage
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	60,547,422	19.35%
IFFCO POULTRY CO SDN BHD	52,849,668	16.89%
CITICORP NOMINEES PTY LIMITED	34,639,118	11.07%
SOUTHEAST POINT LIMITED	20,508,871	6.56%
J P MORGAN NOMINEES AUSTRALIA LIMITED	15,539,502	4.97%
HSBC CUSTODY NOMINEES(AUSTRALIA) LIMITED - A/C 2	12,360,837	3.95%
NATIONAL NOMINEES LIMITED	10,676,159	3.41%
JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	9,231,687	2.95%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	6,296,870	2.01%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	4,610,158	1.47%
NBT PTY LIMITED<ASTOR SUPER FUND A/C>	3,404,641	1.09%
NEASHAM HOLDINGS PTY LTD <THE NEASHAM A/C>	2,381,457	.76%
NBT PTY LTD	1,532,405	.49%
3RD WAVE INVESTORS LTD	1,500,000	.48%
MIRRABOOKA INVESTMENTS LIMITED	1,500,000	.48%
SNOWSIDE PTY LTD <SNOWSIDE A/C>	1,480,716	.47%
MR DAVID DIXON + MS CATHERINE RAMM	1,235,969	.40%
CHARLES STREET INTERNATIONAL HOLDINGS LIMITED	1,115,000	.36%
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	1,010,151	.32%
WARMAN (NOMINEES) PTY LTD <THE WARMAN INVEST A/C>	898,983	.29%

ASX ADDITIONAL INFORMATION (continued)

(c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

Ordinary shareholders	**Number**
IFFCO Poultry Co SDN BHD (and associated entities including the Felda Group)	52,849,668
Wellington Management Company, LLP, and its related bodies corporate	34,567,235
Southeast Point Ltd and Wisemoor (PTC) Limited	33,767,365
Deutsche Bank AG and its related bodies corporate	15,230,546
Dimensional Fund Advisors	13,329,974

(d) Marketable Shares

The number of security investors holding less than a marketable parcel of 359 securities ($1.395 on 25 January 2012) is 414 and they hold 55,200 securities.

COMPANY INFORMATION

Registered Office
Principal Place of Business
Level 1
299 Coronation Drive
Milton QLD 4064
Ph: (07) 3368 4400
Fax: (07) 3368 4401
www.aaco.com.au

Share Registry
Link Market Services Limited
330 Queen Street
Brisbane QLD 4000
Ph: 1300 554 474
www.linkmarketservices.com.au

AAco shares are quoted
on the Australian Securities
Exchange under listing
Code AAC.

Solicitors
Mallesons Stephen Jacques
Level 30, Waterfront Place
1 Eagle Street
Brisbane QLD 4000

Bankers
National Australia Bank
Ground Level
345 George Street
Sydney NSW 2000

ANZ
16/324 Queen Street
Brisbane QLD 4000

Commonwealth Bank
Specialised Agribusiness Solutions
Business and Private Banking
143-145 Margaret Street
Toowoomba QLD 4350

Auditors
Ernst & Young
Level 5, Waterfront Place
1 Eagle Street
Brisbane QLD 4000