



**Australian Agricultural Company Limited**  
ABN 15 010 892 270

## **AACo 2013 Annual General Meeting**

### **Chairman's Address**

**ASX Announcement No. 11/2013**

**15 March 2013**

Attached is the Chairman's Address for the 2013 Annual General Meeting of the Australian Agricultural Company Limited ('AACo') to be held today.

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# AACo Annual General Meeting

## Chairman's Address

Friday 15 March 2013

Good morning Ladies and Gentleman.

I would like to give you an overview of one of the most significant years in AACo's history, and then I will invite the Managing Director, David Farley, to brief you in detail on our operational outcomes and future strategy.

2012 marked the culmination of AACo's three-year turnaround strategy to transform the business from a pure pastoral company into a globally focused, vertically integrated beef producer, processor and marketer.

It is, the end of the beginning – the building blocks that have better equipped AACo to move into the future.

This strategy has delivered significant benefits, including substantial increases in the size and quality of AACo's herd, with an upgraded genetic and age profile.

Our herd is bigger than it has ever been – the biggest herd for a pastoral company in Australia's history.

The business has been strengthened in a number of key areas to ensure it is best positioned to achieve long-term value for shareholders.

In addition, the company is extending its vertical integration through the Northern Territory abattoir development.

AACo is a stronger company as a result of this strategy and has the right foundations in place to drive future growth.

### **2012 Result**

AACo's financial result in 2012 was disappointing, impacted by a number of negative market forces, which resulted in the company posting a full year after tax loss of \$8.4 million.

This result was primarily due to flow-on effects from the Federal Government's live cattle export suspension in mid-2011.

The suspension had significant and wide-ranging impacts for AACo and the industry as a whole.

As a result of the suspension, cattle which would have ordinarily been exported to the Indonesian market remained in the Australian market.

This caused over-supply issues and a subsequent deterioration in the domestic cattle price.

There are now two million more cattle in Australia than there were two years ago.

This situation was exacerbated by dry conditions in the second half, which further contributed to the increased supply of grass-fattened cattle.

AACo made a strategic decision to delay the sale of cattle to the end of the year to benefit from increased pasture, heavier sale weights and anticipated price rises.

As the company values its herd on a mark to market basis, the increased herd size and the lower prices directly affected the final valuation.

The live export suspension has also created a challenging property market in northern Australia, which has led to a significant decrease in the value of AACo's extensive land holdings in the region.

This further impacted the company's profit result through impairment costs of \$8.1 million.

The company now estimates total losses as a result of the live trade suspension, and the related devaluation of its northern Australian properties, to be \$51.2 million.

In 2011 losses as a result of the trade suspension were \$8.5 million.

Losses were also sustained from cattle falling out of specification and having to be delivered to markets in other locations, with increased handling and transport costs.

Despite significant rainfall in coastal Queensland, the dry conditions have persisted into the first three months of this year throughout much of northern Australia, and have continued to impact the mark-to-market valuation of our trading herd.

The continued high Australian dollar has continued to impact AACo as it has all Australian export industries.

Apart from the effect the higher dollar has on our profit and loss, it has also enabled the US to compete more effectively in our markets.

## **Operational Outcomes**

Notwithstanding these challenges, in the things that management could influence, AACo has continued to achieve exceptional operational outcomes throughout the 2012 year.

The company ended the year with its largest herd on record.

AACo also met, or exceeded, weight gain and calving metrics during the year, ending the year with its largest ever number of calves branded.

In addition, as David will outline in more detail, the company also rolled out a number of innovative herd performance technologies that will ensure even more precise and improved management of our land and cattle assets into the future.

Most importantly, the company also achieved a \$63 million turnaround improvement in operating cash flow.

While this falls just short of AACo's target to return to positive operating cash flow last year, it demonstrates a substantial improvement on previous years.

## **Our Market**

2012 saw the first year of operations under the Federal Government's Exporter Supply Chain Assurance System, or ESCAS, which was introduced in late 2011 following the lifting of the live export ban.

AACo, along with the broader industry, has embraced implementation of this new regulatory system and the improvements it has unquestionably delivered in animal welfare standards.

It has not, however, been without its challenges.

Australia is the only country that has ever attempted to regulate livestock exports from paddock through to processing in another country.

In some markets, these regulations have been challenging and costly to implement and supply chains have been restricted as a result.

AACo remains committed to providing the highest standards of animal care right throughout the live export chain.

We believe the ESCAS will deliver positive benefits for the long term sustainability of the live export trade.

In response to the Australian Government's suspension of trade, the Indonesian Government accelerated its policy drive to have a self-sustaining cattle industry by 2014.

Indonesia significantly reduced the number of import permits from Australia during the year – from 500,000 head in 2011, to 283,000 head in 2012.

This quota reduction, coupled with the upper weight limit of 350 kilograms for live export feeder cattle to Indonesia introduced in 2010, has created significant challenges for the beef industries in both countries.

Indonesia remains an important live export market for AACo, and we urge the Australian Government to renew efforts to rebuild our diplomatic and commercial relationship with Indonesia which will continue to rely on Australia as local and reliable source of quality feeder and breeder cattle.

The company diversified its live exports into other Asian markets in 2012 to drive continued growth and lower the risk to the business.

AACo is now selling to exporters supplying several new and redeveloping markets, including Vietnam and the Philippines, and will continue to further diversify in 2013 and beyond.

Other live cattle markets have qualified under the ESCAS arrangements and only await the appropriate authorisations.

We urge the Government to expedite these approvals.

## **Unprecedented Opportunities in Emerging Asian Markets**

The Federal Government's Australia in the Asian Century white paper released during 2012 states that continuing population growth and rising living standards in Asia will see global food production grow 70 per cent by 2050.

In response, Australia's beef production is expected to more than double to reach \$15 billion within the same timeframe.

I agree with warnings from speakers at this month's ABARES Outlook Conference who highlighted that the 'food boom' in nearby Asia was by no means guaranteed and that now was not the time for Australian farmers to 'sit back and relax'. In particular those speakers pointed to the need for an even greater focus on innovation, productivity and market access.

AACo has long understood the importance of Asia to Australia's agriculture industry and the company's future growth strategy is largely focused on continuing to innovate, diversify and grow its business in emerging Asian markets.

AACo's significant investment in Wagyu and composite genetics has meant our superior branded beef products are highly prized by Asian customers and it has established leadership positions in a number of regions.

The Company's geographic footprint in northern Australia, coupled with the strategic proximity of its proposed Darwin processing facility to initially produce manufacturing grade meat to key Asian markets, in addition to its existing high quality grass-fed and grain-fed beef brands means AACo is in an enviable position to continue to capitalise on the unprecedented opportunities presented by the rise of Asia at both ends of the beef market over the coming decades.

Trade policy is critical for future beef market access and we do have some immediate concerns over the lack of progress in our Government's engagement with South Korea.

In March 2012, the United States and South Korea signed a Free Trade Agreement which has put the entire Australian beef industry at a competitive disadvantage and increased price competition on cuts of beef that are commonly exported to Korea.

Without an FTA between our own country and Korea, Australia's beef exports face the very real risk of being detrimentally impacted in response to the US trade push in the region.

Korea is AACo's largest boxed beef export market, accounting for more than 20% of the company's annual beef sales, and is a major trading partner for many Australian industries.

AACo is managing this risk by further strengthening and diversifying its relationships with customers in the country.

More than half of the value of AACo's beef supplied to Korea is Wagyu and this faces less price competition from the US than other products.

In addition, AACo's ability to deliver chilled, rather than frozen, beef to customers also strengthens its position in the Korean market.

But if Australia is to capitalise on the opportunities presented on our doorstep by the Asian Century, our political and industry leaders must take every step to ensure our industries are supported by forward-thinking policies that foster competitiveness on the global stage.

AACo is working with our industry bodies in lobbying the Federal Government to become more engaged in pursuing an FTA with Korea as a matter of priority.

## **Darwin Abattoir**

One of the ways the company is seeking to minimise risk is through its vertical integration strategy.

In October 2012, following approvals from the Northern Territory Government, the Board approved the commencement of civil works and the appointment of contractors for AACo's Darwin meat processing facility.

Work on the facility is now underway.

This facility will be an extremely important strategic asset for AACo that will deliver increased vertical integration and improved proximity to key South East Asian markets.

It will also secure the long-term future of Australia's northern pastoral industry by providing the only material processing facility in the region, which has a total herd of over two million head.

The Board's approvals for this facility have followed a staged and disciplined approach over time. This has allowed decisions to be made following careful consideration of its development, from feasibility study through subsequent stages.

## **Board Changes**

During the year, the Board welcomed Dr Shehan Dissanayake as a non-executive director.

Dr Dissanayake has a wealth of industry experience, with specialist expertise in technology and marketing, and has already made a valuable contribution to the Board since his appointment in April.

I would also like to thank departing board member Dato Sabri Ahmad for his contribution.

## **Remuneration Report**

Later this morning, shareholders will have the opportunity to vote and ask questions in relation to the remuneration report.

The board believes that AACo has the best management team in the Australian corporate agricultural sector, and we are committed to adopt remuneration strategies that maintain the energy and commitment of this team, ensuring their incentives are aligned with delivering value for shareholders.

For the CEO and Key Management Personnel, rewards are linked to achievement of short and medium term key performance criteria.

A focus on retention is embedded in our approach to deferring a portion of Short Term Incentive payments subject to service while CEO rewards are linked to shareholder value creation through equity incentives that depend on long-term company performance and core values.

The Staff and Remuneration Committee engaged external consultants to review remuneration policy. This independent review confirmed that Board and Executive remuneration at AACo is within market expectations and reasonable.

## **Conclusion**

The past three years have seen the beginnings of the transformation of AACo.

Through the turnaround strategy, the company has developed solid operational and business foundations and is structured to capitalise on the enormous future opportunities forecast in key export markets.

2013 promises to be a defining year for AACo. It will see the company focus on further developing its leadership positions in high growth markets, as well as increasing scalability and asset utilisation.

AACo's strategic geographic footprint and enhanced vertical integration mean the company is in a strong position to further grow its global supply chain and capitalise on the unprecedented demand for red meat protein from emerging Asian markets.

I would like to take this opportunity to thank our Managing Director and CEO, David Farley, my fellow Board members, the executive team and all of AACo's hard working people for their ongoing contribution and commitment.

We are confident that our strategy will continue to drive growth and value creation and I look forward to sharing our progress with you in 2013 and beyond.