



Australian Agricultural Company Limited
ABN 15 010 892 270

Strategy Update and Outlook

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- Continuing strength in the market for rural property
- Funds seek to invest directly in AAco assets with AAco as manager/marketer
- Weakness in 2008 beef prices will push FY08 reported result into loss
- Underlying positive cash flows within a stable debt structure
- AAco is structuring itself to deal with the current economic environment
- AAco confident of improved trading conditions for 2009

Rural property valuations confirm AAco's NTA of \$2.79

Prices for good quality rural property in Northern Australia have continued to improve over the past year. This is supported by recent sales in the region. The annual program of independently valuing 33% of the portfolio by 3 year rotation is underway and early indications support the rising values for quality well managed stations.

Strategy to increase the herd under management

Part of AAco's 2005 strategic plan to increase economies of scale, that emerged in 2007, was to allow wholesale funds direct access to AAco's properties with a view to seeding portfolios to expand the cattle herd under management. Since then the company has received an increasing level of interest from institutional, sovereign and corporate investors wishing to acquire quality, well managed rural properties for dedicated rural property portfolios.

"We are in negotiations with a number of funds and investors who wish to acquire a property or portfolio of properties" AAco CEO Stephen Toms said today. "The basis of any transaction is our current NTA. A portion of the proceeds would retire debt. The balance of funds would be used to implement plans to increase the herd under management by increasing carrying capacity, to add earnings diversity through fee based income, to undertake alternate agribusiness, and to execute carbon related initiatives" he said.

FY08 to report accounting loss as beef prices soften

Since AAco's last market update on 24 September the global credit crisis has started to directly impact the market for soft commodities, including beef. In key markets such as the US, Japan and Korea, the failure of some traders and wholesalers to gain access to lines of credit has resulted in reduced orders. This has seen the price for beef fall by 9% from an 18 month high in September of 360c/kg (EYCI) to 330c/kg (12 December). Meat and Livestock Australia do not expect global markets to recover until early 2009 once import stocks have been run down. For most of 2008, the company has had to endure high interest costs, very high grain costs, drought mitigation expenses related to the Barkly breeding herd, an uncompetitive Australian dollar and high oil prices.

In addition the rapid fall in interest rates will mean a negative mark to market non cash impact on the company's hedged interest position. All of these elements are expected to reverse in 2009.

AAco's reported earnings are extremely sensitive to year-end cattle price assumptions, under the Agriculture Accounting Standard. "A fortnight out from our December 31 balance date, it is apparent that the business will report an accounting loss, however the cattle market is unpredictable and significant mark to market adjustments can occur in that period particularly if good rainfall is received over the summer months. Therefore the extent of the loss will not be known until the end of January on completion of a full herd analysis and valuation that is audited and accepted by the audit committee. "That said, it is worth keeping things in perspective. Over the company's 184-year history, it has weathered two depressions and any number of recessions and not only survived but continued to prosper. Today AAco remains a strong, robust company," Mr Toms said.

Operating cash flow remains positive within a stable debt structure

The Agriculture Accounting Standard's requirement that AAco marks its cattle herd to market on 31 December each year, introduces a level of volatility to AAco's reported earnings that is not representative of its underlying value or financial stability. Operating cash flow taken in conjunction with herd growth is generally regarded as the more relevant metric to track in assessing the financial performance of AAco and the company anticipates that it will deliver positive operating cash flow for FY08 compared to the negative outflow of the previous year. "We expect a \$30m turnaround in operating cash flow from the previous year, resulting mainly from increased cattle sales and an increasing contribution from the branded beef group," Mr Toms said.

AAco reported net debt of \$407 million at the half year to 30 June, all of which was classified as non current having secured an extension to their debt facilities in May 2008. There has been no significant change since that time. Around half of AAco's debt is not due for refinancing until January 2010 with the balance to roll in January 2011.

Fundamentals for 2009 improving

The weaker Australian dollar has to some extent offset the fall in both price and demand and augers well for 2009. Since late September the Australian dollar/US dollar exchange rate has declined 10-15% from 80 cents to 64-67 cents, boosting the competitiveness of Australian exports. This assists sales to the USA and Japan but in reality only offsets sales to countries with weaker currencies such as Korea and Indonesia.

The recent reduction in domestic interest rates, the steep fall in the oil price from around US\$145/barrel to below US\$45/barrel, and falling grain prices will start to be reflected in reduced station operating costs for next season. Importantly, there are indications that in the next three months there is the increasing prospect of a good wet season with better than average falls having been experienced during November. The benefit of all these factors will be realised through improved profitability and cash flow in 2009.

The rapid slow down in the global economy in recent months has, however, prompted an increased focus on cutting costs and controlling overheads.

The company has budgeted to reduce overheads by \$20m (15%) in 2009 commencing with the reduction of corporate costs.

An example is the initiative to consolidate AAco's head office with the Brisbane office of Chefs Partner, the company's branded beef division. Other cost savings have been targeted in labour, feed, transport, and mustering costs as well as general cattle inputs. Any strategic asset sales will further enhance the result.

Positive future

Mr Toms said the company remains positive about the long-term future of the company: "We remain confident that the global shortfall in supply arising from the decline in breeding herds in China, Russia and the USA combined with increasing demand for protein from a growing Asian middle class will inevitably lead to a sustained increase in prices".

AAco is structuring itself for uncertain times. The operations of the company are not being distracted by external issues around its register – those matters are being dealt with at Board level.

"We are keeping our eyes on the main game" said Mr Toms. "AAco is a rural land bank and staple food producer; it is a long term low risk business. We have set a sensible and profitable budget for 2009. Whilst the company as a listed entity is not immune to the economic upheaval in the world, AAco's core business of operating, managing and sustaining a long term and scarce arable land resource, funded by a food staple, makes it an attractive safe haven for investors.

"In the meantime by keeping operations focused, the company is succeeding in delivering on its strategies. AAco has recently won the Queensland Agricultural Exporter of the Year 2008 and the 2008 NAB Agribusiness award for export, a tribute to all the stock and station staff in creating the product, as well as the marketing team and administrative support group."

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AAco

Australian Agricultural Company – AAco (ASX: AAC) – is the largest beef cattle company in Australia, with 565,000 beef cattle.

AAco was established in 1824 and is the oldest continuously operating company in Australia. The company, which has 500 staff, currently operates 24 cattle stations and two feedlots, and is the custodian of seven million hectares (about 1.2% of Australia's land mass).

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