



Australian Agricultural Company Limited
ABN 15 010 892 270

Additional Detail to Guidance on 2008 Results and Outlook for 2009

ASX Announcement No. 01/2009

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- Outstanding start to 2009 season with some of the highest rainfall in 90 years
- Expecting a reported loss for 2008 of \$39-42m due to drought and non-cash accounting adjustments
- Operating cash flow turnaround of \$31m in line with expectations
- Property portfolio valuation increased by 5%
- Return to profitable trading expected in 2009
- Results to be released on 10 February 2009

As noted in our announcement dated 17 December 2008 titled 'Strategy Update and Outlook', the company reported that an accounting loss would be incurred for the year ended 31 December 2008. The extent of that loss was subject to, amongst other items, mark to market calculations on both the cattle herd and interest rate swap positions.

These items were reviewed by the AAco Board and Audit Committee at their meetings concluding last night. Whilst the Statutory Accounts will not be finalised until 10 February 2009, the Board has determined that it is appropriate to give guidance as to the expected accounting loss, operating cash flow, debt and property valuation positions, subject to any audit and tax effect adjustments.

Accounting loss magnified by IFRS requirements to "mark to market"

The post tax accounting loss is expected to be in the range of \$39m – \$42m. The main contributors to the loss position in approximate terms are as follows:

	\$'m
Mark to market of interest rate swap positions (non cash) - see note below	25
Loss of gross margin on drought sales of cattle	14
Significant drought mitigation costs (e.g. agistment, transport, fuel, supplementary feeding)	15
Costs related to senior executive changes, advisers on the potential exit of Futuris and other one off items	3
Total Pre Tax	57
Less: Tax effect @ 30%	(17)
Net after tax impact	40

Whilst cattle prices did firm slightly, the significant uplift in cattle prices that was expected as a result of the weakening Australian dollar did not eventuate because of instability in global markets. Also, seasonal conditions did not significantly improve until January 2009. Consequently the mark to market increase of the cattle herd valuation for the second half was only \$3m, taking the full year uplift to \$12m.

Operating cash flow recovery in line with expectations

As noted in the 17 December 2008 announcement, a \$30m turnaround in operating cash flow was expected and the company has delivered on that expectation achieving a positive operating cash flow of \$10m. With the exception of the interest rate hedge positions, the matters noted in the table above also affected operating cash flow. Normalising for the additional \$32m cash impact of these items, operating cash flow would have been in the order of positive \$42m, compared with last year's normalised cash flow of negative \$31m.

Property valuation supports 5% increase in portfolio

The company had a sample of 13 properties valued by independent valuer Herron Todd White conducted in December 2008. Overall the entire portfolio has increased in value by 5% since December 2007 (based on the HTW and directors' valuations). Within the portfolio some properties declined in value whilst others have increased. Declines were experienced in Central and Southern Queensland. The properties in the Northern Territory were either static or rose as a result of development that increased carrying capacity. Most properties in the Queensland Gulf area rose in value. Accordingly the underlying gross asset base of AAco has remained undiminished, standing at approximately \$1.342 billion compared to \$1.298 billion in 2007.

Long time followers of this business and investment analysts recognise that the true value of AAco lies in the quality of its land holdings and unique cattle production system - both of which are reflected in its balance sheet via a steady appreciation over time in net asset backing.

Debt position stable but interest rate swaps incur additional "cost"

At 31 December 2008 all net debt of \$409m was classified as non current and within covenants. The company has a borrowing limit of \$450m. In order to mitigate interest rate risk, the company has covered approximately \$280m of the debt at a fixed interest rate of approximately 6.6%. The balance of debt incurs interest at current low variable rates based on a cash rate of approximately 4.25%. Whilst this policy provides more certainty in relation to cash flows and assists in limiting rising interest rates, under current accounting standards, it does introduce volatility into reported profits. The main reason for the mark to market adjustment in the Profit and Loss account is the difference between these two rates. The accounting standard does not permit this mark to market "cost" to be spread over the term of the loan in the same way that the interest is actually paid. In effect, the cost represents an estimate of what interest might be paid over the next three to four years on the assumption that variable interest rates will not rise in that period. This mark to market position will unwind and appear as credits in the profit and loss account in future periods. The real interest paid will be recorded in the cash flow statement.

Outlook for 2009

There are 5 key drivers to our business and these are tabled below in summary form. The most important point to note is that the major drivers in the 2008 financial year were all negative.

As evidenced in the following table, the outlook for 2009 represents a complete reversal and as such we expect that the company will return to trading profitably.

Driver	2008	2009
Rainfall	Severe dry conditions on the Barkly region which impacted 40% of the breeding herd.	More rain in January than all of 2008 and some of the highest in 90 years. This will provide significant feed reserves for the next two years.
Feed Grain Costs	Peaked at over \$400 per ton during 2008.	Current grain is less than \$200 per ton – This will dramatically lower input costs to the feedlot business.
Diesel	Oil prices reached \$US 145 per barrel. The company had significant additional mustering, transport and water pumping costs due to drought.	Oil prices as low as \$US 35 per barrel. Offset by weaker dollar but still an improvement.
Australian Dollar	This peaked at \$0.94 and eroded competitive position in key markets of Japan, USA and Korea.	Currently \$0.64. This will assist in restoring Australian beef's competitiveness.
Interest Costs	Variable Interest Costs based on a cash rate of around 7.25%.	Variable rates now based on a cash rate of 4.25%.

These market conditions, combined with the continuing global food shortage, will support the fundamental demand for clean, traceable, quality Australian beef.

The company has completed its budgets and is still on track to achieve cost reductions of more than \$20m in 2009.

The company expects to publish final audited accounts on 10 February 2009 at which time further guidance will be provided on the outlook for 2009 and a more detailed review of the 2008 financial year will be included.

For further information:

Analyst contact:
Stephen Toms
Chief Executive Officer
(07) 3368 4400

Media contact:
Greg Flynn
Channel Financial Communication
0400 225 115

www.aaco.com.au