



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

## **AAco signals earnings recovery in 2009** **Accounting loss in 2008 arising from drought and volatile markets**

**ASX Announcement No. 02/2009**

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Australian Agricultural Company Limited – ‘AAco’ (ASX:AAC) today announced its financial results for the year ended 31 December 2008.

As flagged in the preliminary guidance provided to the market on 3 February 2009, AAco reported a loss for the year of \$38.7 million due to adverse financial impacts associated with the drought together with a \$24.9 million non-cash accounting adjustment.

- Reported loss for 2008 of \$38.7 million
- Positive operating cash flow of \$10.7 million (cash outflow of \$21.2 million in 2007) in line with expectations
- Property portfolio revalued upward by 5% (\$39.7 million pre-tax) increasing the asset base to \$1.34 billion
- AAco’s NTA declined to \$2.63 per share (\$2.78 at December 2007) predominantly as a result of the reported loss and the issue of new shares under the DRP
- Net debt and gearing levels stable at \$409 million and 37% (36% at December 2007)
- Return to profitable trading forecast as North Australia experiences record rainfall and all key earnings drivers trending upwards
- Futuris exit remains a key focus for Board and management

Commenting on the results, AAco Chief Executive Officer, Mr Stephen Toms noted that the quantum of the loss for the full year, compared to the \$2.2 million loss reported at the half year, partly reflects the significant additional costs incurred to manage the cattle business through the extremely dry conditions that prevailed throughout much of rural Australia during the latter half of 2008.

In addition, Mr Toms said “the uplift in cattle prices experienced in the third quarter was not sustained during the closing months of the year as global financial markets imploded. Since September 2008 the cattle price has steadily declined, falling 17% from 360c/kg to just under 300c/kg (5 February), as importers have focused on running down inventory. The mark to market of AAco’s cattle herd at 31 December 2008 resulted in an increase of only \$4 million for the second half.”

The reported loss also included a mark to market expense of \$24.9 million as a direct result of the interest rate and currency volatility arising from the financial crisis in October 2008 and the accounting standard requirement in relation to interest rate swaps.

### **Rural property valuations increase AAco's property portfolio by 5%**

While sales of rural property have been slowing throughout 2008, prices have continued to firm, particularly in the Northern Territory and Queensland Gulf. AAco's property portfolio was revalued upwards at 31 December 2008 by 5% (\$39.7 million pre-tax) compared to 31 December 2007, supported by independent valuations for a number of the properties prepared by Herron Todd White, during December 2008. In addition to market increases, the value uplift was driven by increased carrying capacity of the properties arising from development work, predominantly with respect to the Company's Gulf properties.

This was not enough however to prevent the net tangible asset backing of AAco's shares declining from \$2.78 per share in December 2007 to \$2.63 per share, predominantly as a result of the reported loss and the issue of new shares under the Company's Dividend Reinvestment Plan.

***"There is no question that AAco has just experienced one of the worst years in recent history having had to deal with the multiple challenges of severe drought, high input costs, an uncompetitive A\$ and the global financial crisis, said Mr Toms. "The fact that we have emerged with our breeding herd intact, generated positive cash flow of \$10.7 million and recorded an increase in the value of our property portfolio, is testament to the quality of our land holdings, AAco's unique cattle production system and the dedication of our people".***

### **Debt levels and gearing unchanged**

AAco's gearing was unchanged at 37% compared with 36% the previous year and is within covenants. At these levels, AAco's total net debt of \$409 million is below the borrowing limit of \$450 million but clearly provides little headroom for growing the business beyond what can be funded from cash flow.

The company mitigated its interest rate risk during 2008 by covering in excess of 50% of its debt at a base fixed interest rate of around 6.6%. The balance incurs interest at current low variable rates based on a cash rate of approximately 3.25% today. The loss arising from the mark to market adjustment during this period represents an estimate of what interest might be paid over the next three to four years, assuming variable interest rates do not change during that time. This position will unwind and appear as credits in the profit and loss in future periods.

### **Property Transactions**

Currently, there is very strong buying interest in high quality northern rural properties with access to reliable water and supporting infrastructure.

Primary Holdings International (PHI) is continuing its due diligence process in relation to its proposed purchase of five properties from AAco (initially announced 22 December 2008). The cattle joint venture and management agreements are currently under negotiation.

As part of the optimisation of its asset portfolio AAco will consider selling one or two fringe properties to underwrite additional property development and re-stocking capacity (to take advantage of feed pools for the 2009 season) with an appropriate proportion applied to debt.

## Outlook for 2009

In direct contrast to 2008 the five key earnings drivers for the business in 2009 have all trended very positively:

- In 2009 year to date, AAco's stations have received more **rainfall** than in all of 2008. The resulting pasture will underpin cattle production for 2009 and into 2010. However, resulting floods increase the risk of stock losses and damage to plant and equipment. Such potential losses are factored into the Company's budgeting assumptions and insurance programmes (on plant and equipment) where applicable.
- **Feed grain costs** which account for 20-25% of total cattle operating costs have more than halved from their peak of over \$400 per tonne.
- During 2008, **fuel costs** doubled due to additional mustering, transport and water pumping required during the worst of the drought. Oil prices have since collapsed from their peak of US\$145 per barrel to as low as US\$35 per barrel.
- The **Australian dollar** is currently trading around US\$0.64, restoring the competitiveness of beef exports in Japan, USA and Korea.
- Finally **interest rates** have reduced significantly in the past five months reducing the company's average cost of funds.

The Meat and Livestock Association is forecasting beef prices to rise during 2009 as a consequence of herd rebuilding constraining young cattle supplies.

## Capital Management Initiatives and Pending Sale of Futuris holding

The Company's 43% shareholder, Futuris Corporation Limited, has made numerous announcements over the past 16 months in both company statements and comments to the press of its intention to sell its holding in the Company.

The AAco Board and Management have over the past 4 months been active in promoting a conclusion to this situation and are hopeful that an end point to this drawn out process is forthcoming in order that the Company can progress its strategic and capital management objectives.

In moving to this conclusion the Company is focused on ensuring that any asset sales it undertakes are at a price that, as a minimum, reflects book value.

### *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](http://www.aaco.com.au)**