



Australian Agricultural Company Limited
ABN 15 010 892 270

AAco Market Update and Outlook for 2009

ASX Announcement 65/2009

2 June 2009

Australian Agricultural Company Limited ('AAco') today issued a performance update to the market prior to the Company's Annual General Meeting to be held on 12 June 2009.

Key points of this update are:

- Four properties sold in 2009 at current market values, yielding \$180 million in cash, applied mainly to debt reduction, and enhancing property utilisation;
- Net debt reduced from \$409 million at the end of 2008 to \$265 million today;
- NTA not impacted by property sales;
- On track with \$20 million operating cost reduction plan;
- Given low cattle prices, flood related issues and Australian dollar movement, AAco does not expect to achieve a profit in the First Half of FY09;
- The profit outlook for the Full Year is unpredictable given volatility in cattle prices and the value of the A\$; and
- AAco expected to remain cash flow positive.

AAco's path in 2008 and 2009 to date

Looking back over the past 12 months, AAco Chief Executive Officer, Stephen Toms noted that: "AAco has successfully navigated through drought, flood, and the sale of Elders 43% shareholding, all amid the global financial crisis, in what has been a turbulent year for the Company. Despite the seasonal and economic turmoil, the Company has emerged with a strong balance sheet with solid assets and is in a position to move forward and take opportunities as they present themselves in the market. AAco has managed its way through these times, made the hard decisions and come out in a safe and strong position".

Financial pressures, exacerbated by the drought in 2008 and the ongoing global financial crisis, required AAco to consider its options for meeting its capital requirements, traditionally sourced from the following areas:

- Equity funding;
- Debt funding; and
- Realisation of land and cattle assets.

Equity funding

From 2007, with its then major shareholder, Elders Limited, publicly committed to sell down its 43% stake, the Company was constrained in its ability to raise equity through traditional means such as a rights issue or placement.

Debt funding

The Company was operating close to its maximum gearing levels and, with downward pressure on commodity prices, there was a concern that revenues might not be sufficient to service any significantly increased level of debt.

Asset sales

Accordingly, AAco determined that the optimal means of reducing debt and improving cash flow was to realise assets at historically high rural market values (equivalent to NTA of around \$2.60 per share), which were more than a 60% premium to the stock market value ascribed to AAco's share price (around \$1.60 per share).

Actions taken in early 2009

What AAco did as a consequence was to:

1. Sell selected land and cattle assets to realise approximately a net \$180 million to reduce debt levels, using the significant arbitrage between the Company's NTA and share price as the best source of equity generation; The impact on the Company's debt position has been to reduce total debt facilities from \$450 million to \$320 million, split as follows:

First tranche due January 2010		Second tranche due January 2011	
Was	\$200 million		\$250 million.
Is now	\$ 70 million		\$250 million.

Overall, net debt now stands at around \$265 million.

2. Target a \$20 million reduction in overheads – on track year to date; and
3. Focus on short term cash management.

Outlook for the December 2009 financial year

Property utilisation levels

In addition to reducing debt, another key benefit arising from the property sales completed in April and May 2009 is a significant increase in the utilisation of the Company's breeding properties, as stock is transferred to other properties in the AAco portfolio. At the commencement of the year, AAco had less than 60% utilisation of its Barkly breeding properties, which is now expected to approach 100% by the end of 2009, once the planned restocking is complete.

The sale of Rockhampton Downs (bare of stock) contributed to the improved land utilisation of surrounding Company properties noted above and released \$35.7 million in cash at full book value. It also enabled AAco to avoid the \$15 - \$20 million investment in working capital expenditure that would have been required for re-stocking Rockhampton Downs with 28,000 head, which would not have provided any cash return from calves produced until 2011.

Overall, the impact of lowering debt through the sale of the four stations and reducing working capital requirements has lessened the effective interest burden by approximately \$14 million per annum at AAco's average interest rate.

Earnings and cash flow impacts

There are a number of cash and non-cash elements that will impact earnings for the current financial year ending 31 December 2009.

Cash impacts on earnings:

- **Cost management** – The Company is continuing to focus on sensible reductions in operating expenses and is on track to realise its budgeted \$20 million cut in overhead expenses for 2009.
- **Physical cattle sale prices** – Since 31 December 2008, cattle prices have remained subdued, trading between \$3.00/kg and \$3.20/kg, compared with a peak in September 2008 of just over \$3.60/kg. The Australian dollar has recovered from its low in February 2009 of \$0.63 against the US dollar, increasing by 27% to around \$0.80. Neither of these price trends is supportive of the previously anticipated turnaround in profit for the full year. Monthly average cattle prices have been down between 5% and 10% since the start of the year, which will have an estimated negative impact on revenue for the first half of up to \$10 million.
- **Wholesale beef** – The Wholesale beef division continues to improve its performance and is on target to exceed last year's profit contribution of \$2.9 million.
- **One off abnormal transaction and corporate costs** – The estimated negative impact of one off costs associated with property sale transactions and corporate activity is \$2 million.

- **The impact of legacy issues:**

- **Lawn Hill sub-lease (entered Jan 2004)** – The Lawn Hill sub-lease is due for renewal in September 2009, but is unlikely to be agreed on terms acceptable to AAco. On expiry, this will have an estimated positive cash flow impact through the elimination of lease rents by approximately \$1 million per annum and reduced station operating cash costs by \$3 million per annum. At 31 December 2008, the Company had an intangible asset of \$4 million relating to this sub-lease which will be fully amortised in 2009. This will have no impact on NTA or cash flow.
- **Co-operator agreements** – In 2007, the Company entered into co-operator agreements for the supply of composite bulls and heifers from two separate suppliers, Excellerator Genetics Pty Ltd and Hillgrove Pastoral Pty Ltd, with forward deliveries of approximately \$4 million each. Supplies at these levels are in excess of the Company's present requirements. Appropriate action has been undertaken to mitigate the position.
- **Great Southern Limited collapse** – The Company has a potential exposure as parent company guarantor to a former subsidiary, Rural Management Partners Pty Ltd (in 2004), through sub-leases taken out with Great Southern Limited, which may create a contingent liability of approximately \$1.7 million.

Non cash impacts on earnings:

- **Cattle prices** – The cattle market has been depressed since January 2009, which would have a negative mark to market impact if prices were to remain at current levels. Every 1% movement in cattle values, if applied across the herd, has a \$4 million non cash impact on EBIT. Given the volatility of cattle prices it is not possible to determine, with any reliability, what the likely impact will be at year end.
- **Flood impacts:**
 - **Property damage** – The current estimate of 2009 flood damage is approximately \$2.0 million, which is expected to be recovered through insurance.
 - **Cattle losses** – Based on the early assessment of mustering results to date, the Company has increased its estimate of mortality rates for 2009 to 6% of the herd, compared to 4% in the prior year, due to flood. The effect of this higher attrition rate will be felt both in a negative \$7 million non cash impact in the 2009 year-end inventory valuation of the herd and, subsequently, in later year cattle sales numbers.
 - **Calving rates** – Another significant impact from the recent flooding is lower conception rates as cows have a reduced propensity to cycle in distressed situations. Early indications are that calving percentages could fall from 70% to 63% which will adversely affect non-cash revenue in 2009.

- **Sale of stations** – The Company will forgo the non-cash revenue that would have been attributed to the four stations sold, in terms of herd growth. This non cash revenue is offset by the reduction of cash operating costs and interest saved on repaid debt in the future.
- **Interest rate swaps** – Since 2002, the Company has had a financial risk management policy that requires hedging of its interest rate exposure which also accords with undertakings within its financing facility. The non cash earnings impact from the mark to market interest rate swap position, booked at 31 December 2008, will reverse over the next 3 years. The extent to which that reversal occurs in 2009 will depend on the interest rates at December 2009.

Overall, the Company's 2009 financial reporting will be impacted by these cash and non-cash factors as follows:

Profit

The Company is now not expected to generate a profit in the first half of 2009, nor potentially for the full year, particularly if cattle prices remain subdued. The second half of 2009 is particularly unpredictable as the final full year profit outcome will be impacted by currency movements, mark to market valuation on the herd and the cattle prices achieved on physical sales. The sensitivity of profitability to these latter two factors alone is illustrated by the fact that, for every 1% movement in cattle price, EBIT is impacted by \$4 million in changing herd value and \$1.5 million in physical sales revenue.

Net tangible assets

The two main drivers of AAcO's NTA are land assets and cattle. Land valuations are not forecast to increase in 2009. Current indicators are that cattle values may range + / – 10% of herd value, which would have an NTA impact of approximately 10 cents per share.

Subject to these forecasts for land and cattle valuations being realised, NTA should remain in the range between \$2.50 per share – \$2.70 per share by December 2009.

Cash flow

Net cash flow for 2009 full year, after all cattle sales, interest and tax but before land sales and re-stocking, is projected to be positive \$10.0 million, based upon current assumptions regarding projected cattle sale numbers and prices.

Looking forward

The Company is now well placed to proceed with three key short term strategic themes:

1. Complete restocking of the Company's current property portfolio to optimal capacities and to ensure that its advantages are put to best use;

2. Continued enhancement of the capital structure of the Company's balance sheet, to allow it to pursue its growth objectives ; and
3. Identification and assessment of market opportunities as they arise and take the actions necessary to deliver such initiatives.

For further information:

Stephen Toms
Chief Executive Officer
07 3368 4400

Media contact:
Greg Flynn
Channel Financial Communication
612 9221 0008