



Australian Agricultural Company Limited
ABN 15 010 892 270

Market Update Presentation

ASX Announcement 66/2009

3 June 2009

Market Update Presentation attached.

For further information:

Analyst Contact

Stephen Toms
Chief Executive Officer
07 3368 4400

Media contact:

Greg Flynn
Channel Financial Communication
612 9221 0008



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Market Update



Overview

- Challenges - the last 18 months
- Where we are now
- Short term outlook
- 2009 outlook
- Short term operational strategy
- Long term strategic focus

Appendix A – Rationale for property sales

Appendix B – Shareholder returns



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Challenges – the last 18 months





Challenges – last 18 months

- AAco set and commenced executing a 10 year strategic plan for growth
- Elders decided to sell its 43% stake in October 2007 which interrupted the execution of AAco's strategic plan and caused broad uncertainty
- Changes to Board, senior management and the organisational structure during 2008 added to the uncertainty
- All key drivers negative in 2007-8:
 - Severe drought on Barkly Tableland properties in 2008
 - High Grain, Fuel, AUD, Interest and low beef prices
 - Drought broken with record rains in early 2009 – at a price with record floods.
- Global financial crisis (GFC) has impacted both consumer demand and availability of capital





AAco took the appropriate steps to strengthen its financial position

Issue	Steps Taken by AAco	Resolved/ Action Taken
Protracted Elders sales process	<ul style="list-style-type: none"> ▶ Board and senior management worked overtime to expedite Elders' exit from register. Focus on ensuring a premium paid to AAco shareholders if Elders sale resulted in a change in control: <ul style="list-style-type: none"> –Engaged with parties interested in strategic stakes or a takeover, including IFFCO (which acquired 20%) –Engaged with institutions and other investors for market solution – 23% sold through book-build 	
Global Financial Crisis: <ul style="list-style-type: none"> ▶ Pressure to reduce debt ▶ Restricted access to equity markets ▶ Recessionary impacts on business 	<ul style="list-style-type: none"> ▶ Explored equity raising alternatives but Elders overhang affected market appetite. ▶ Explored alternative equity solutions, e.g. fund investment in AAco properties with management retention. GFC restricted timely capital raising within funds ▶ Ultimately made hard decision to sell selected properties at book value. <ul style="list-style-type: none"> ▶ Raised approx \$180m, reducing debt and improving balance sheet flexibility ▶ Maximised margin and cash flow by weighting more grass fed sales to live export ▶ Structured the sales such that core supply chains to live export and grain fed markets retained flexibility and optimal land utilisation. 	



AAco took the appropriate steps to strengthen its financial position

Issue	Steps Taken by AAco	Resolved/ Action Taken
<p>Significant input cost imposts on key business drivers in 2007 and 2008</p> <ul style="list-style-type: none"> ▶ High interest costs ▶ High AUD/USD exchange rate ▶ High transport costs caused by the drought ▶ High grain costs 	<ul style="list-style-type: none"> ▶ Implemented plan to reduce operating overheads by \$20m (actual savings > budget) ▶ Reduced net debt to \$265m from \$409m at Dec 08. ▶ Taking advantage of lower AUD/USD exchange rate ▶ Benefiting from lower oil prices ▶ Taking advantage of lower grain costs 	
<p>Drought</p>	<ul style="list-style-type: none"> ▶ Execution of large scale drought plan preserved the breeding herd (engine of company) ▶ Maintained cash flow (i.e. moved breeding herd to properties not heavily impacted by drought and sold less critical cattle). 	



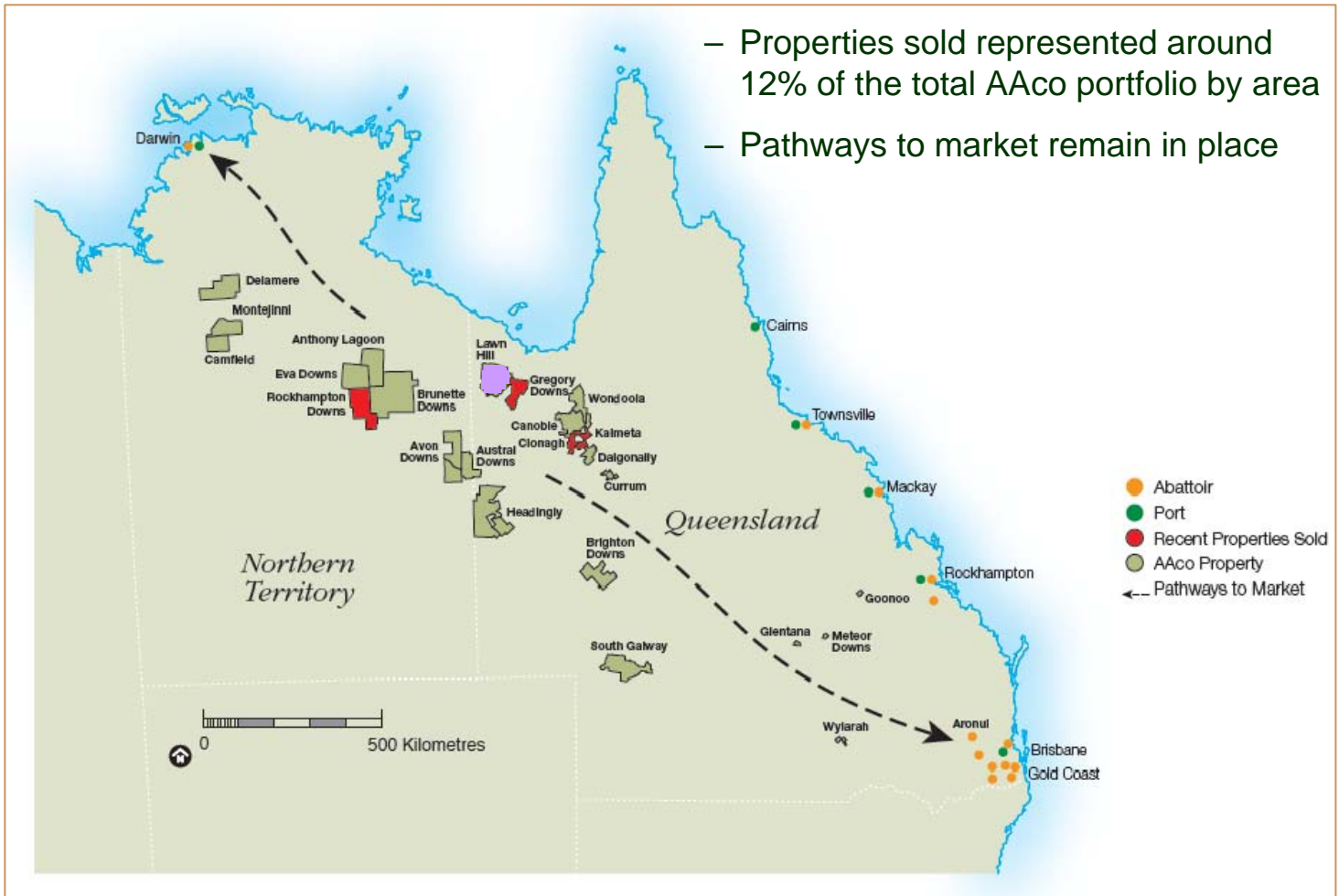
Operational Focus over 2008-9

- Preserving the value of the business through the extremes of drought (2008) and floods (2009) and through the recession
- Realigning production pathways to meet the changing dynamics in the beef market arising from the global recession
- Reducing debt and increasing balance sheet flexibility ahead of the first scheduled debt refinancing (\$200 million) in January 2010
- Focus on cash flow generating activities



Property portfolio and pathways to markets

- Properties sold represented around 12% of the total AAco portfolio by area
- Pathways to market remain in place





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Where we are now



A stronger AAco

- Stronger balance sheet
 - Net debt now reduced to \$265 million by monetising 13% of its assets at book value.
 - Gearing reduced from 38% to 27%
- Recent property sales
 - Assets realised at NTA, implying a substantial 60% premium to current share price and confirming AAco's strategy of delivering value through long term appreciation in asset value
 - Property utilisation enhanced
 - AAco still manages over 7 million Ha of pastoral land
- Experienced long-term management team
 - Corporate knowledge rests with senior executives in both finance and operations



AAco's investment proposition

"We view AAC as a long term asset play (land/cattle) ... We note that the Agriculture Accounting Standard makes reported earnings somewhat meaningless, hence we rely more heavily on cash flow as a gauge of value." GS JB Were February 2009

Long term value is driven by growth in NTA per share

	2004	2005	2006	2007	2008	
Total net tangible assets	390,787	547,923	568,657	714,619	695,125	
NTA per share	1.95	2.20	2.28	2.78	2.63	
NTA growth (3yr compound)	22.4%	31.0%	15.2%	12.5%	6.1%	
Issued Capital	60,830	134,220	135,400	154,070	172,785	
Issued Capital % of assets	16%	24%	24%	22%	25%	
Asset reserves/retained profits (capital gain)	341,531	424,458	446,968	571,494	532,470	
Net debt funding	284,250	240,980	356,880	410,716	408,660	
Net debt/(net debt+equity)	41%	30%	38%	36%	37%	24%

Notes:

1. Net tangible assets equals net assets less intangibles assets
2. Net debt equals total debt less cash and cash equivalents

Current Net Debt approximately \$265m (27% gearing.)



A stronger AAco

Board progressively rebuilt and strengthened over the last year:

- Appointed independent directors
- Selection of candidates targeted appropriate mix of complementary skills including industry experience

Director – alphabetic	Core Expertise
Brett Heading (Independent Chair)	Corporate governance, legal, variety of agribusiness interests
Peter Hughes (Independent)	Very large scale cattle operations, beef industry connections
Stephen Lonie (Independent)	Financial management, strategic planning, diverse industry experience
Phillip Toyne (Independent)	Environmental expertise, Government and Indigenous relations



A stronger AAco

- Long term strategy – a step backwards but now positioned to move forward again
 - Targeting 1 million cattle under management by 2015
 - Selectively investing to increase carrying capacity and value of land portfolio
- AAco's wholesale and branded beef business is performing well
 - Looking to explore downstream opportunities with support of its major shareholder IFFCO such as:
 - Expansion of processing capacity
 - Increased exports of branded and boxed product
 - Access to new markets in Asia and the Middle East



Strategic rationale

- The AAco property portfolio is subject to diverse conditions that range from the tropical wetlands of north Queensland to the drier Barkly tablelands and Central Queensland
- AAco's strategy is to maximise the benefits generated by this diversity by operating the business as a single portfolio



Strategic rationale

- AAco's success depends on a team based management structure
 - Day to day decision making is devolved to station management
 - Head office takes responsibility for overall financial, supply chain, and risk management
- Synergy from operating individual properties or aggregations as part of a larger enterprise
 - Logistics management
 - Leverage economies of scale in many operational areas
 - Optimise market and margin outcomes for group
 - Strengthens risk management



2009 Outlook – Earnings

Cost Drivers

- Targeted operating cost savings over 2008 of \$20m on track.

Other one-off cost items

- Legacy contracts
 - Exposure to Great Southern (approx \$1.7m)
 - Co-operator bull breeding contracts (approx \$2.0m)
 - Write off Lawn Hill agistment intangible (approx. \$4.0m)

but no impact on NTA or cash

- Transaction and corporate activity costs of \$2m



2009 Outlook – Earnings

Revenue Drivers

- AUD:USD exchange rate up 14% since 31 December 2008 from \$0.70 to \$0.80
- Average monthly cattle prices (EYCI) have traded between 5% and 10% down on December 2008 close.
- A sustained 1% movement in cattle prices reflects a \$1.5m fall in cash margins and a mark to market impact of \$4m.



2009 Outlook – Earnings

Flood Impacts – preliminary indicators

- **Cattle Losses** – Prior year mortality rate of 4% - revised estimate for 2009 closer to 6% resulting in incremental revenue reduction \$7m (non cash)
- **Calving %** - very preliminary pregnancy testing indicates a drop in birth rates by 7% as floods disrupt mating patterns.
- **Property Losses** - covered mostly by insurance.



2009 Outlook – Earnings – Benefits of flooding

Flood Impacts. – The beneficial aspects of the floods should not be overlooked.

- 2008 drought affected properties increased utilisation from 60% to 100% in 2009.
- Increased grass feed and nutrition on all stations
- Better nutrition will increase fertility
- All above ground water supplies filled
- Better secures grass feed pools through to 2010
- Higher weight gain in a shorter time frame
- Many of these benefits will flow into 2010
- Allows for cattle trading opportunities to use available grass in 2009 to sell into 2010



2009 Outlook – Earnings

Summary Position

-The industry continues to forecast a lift in cattle prices for the second half

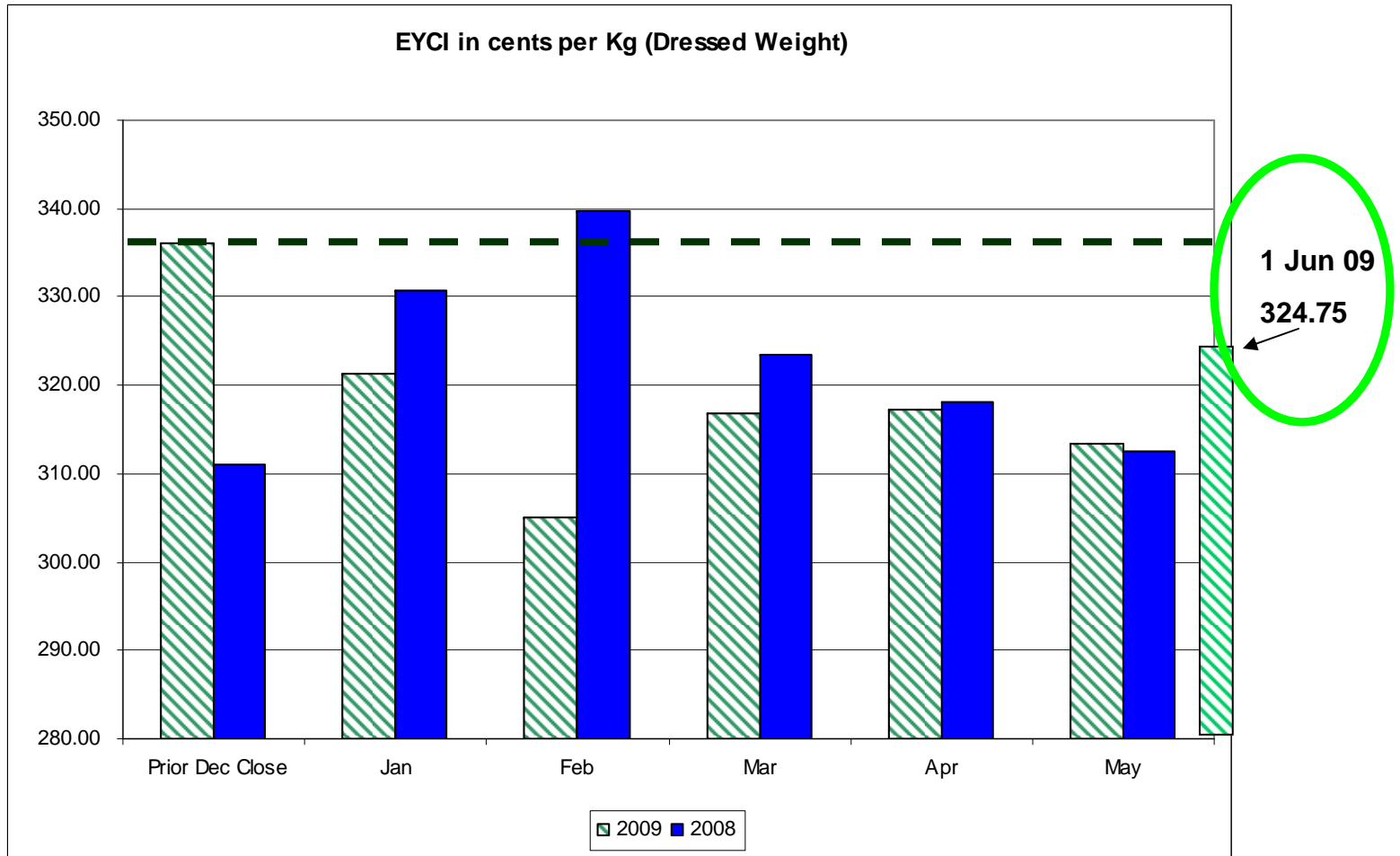
- Prices began trending up in the last week of May '09

-If cattle prices remain at subdued levels there will be negative earnings in the first half.

-If prices revert, as expected, to long term trends profitability should recover in the second half.



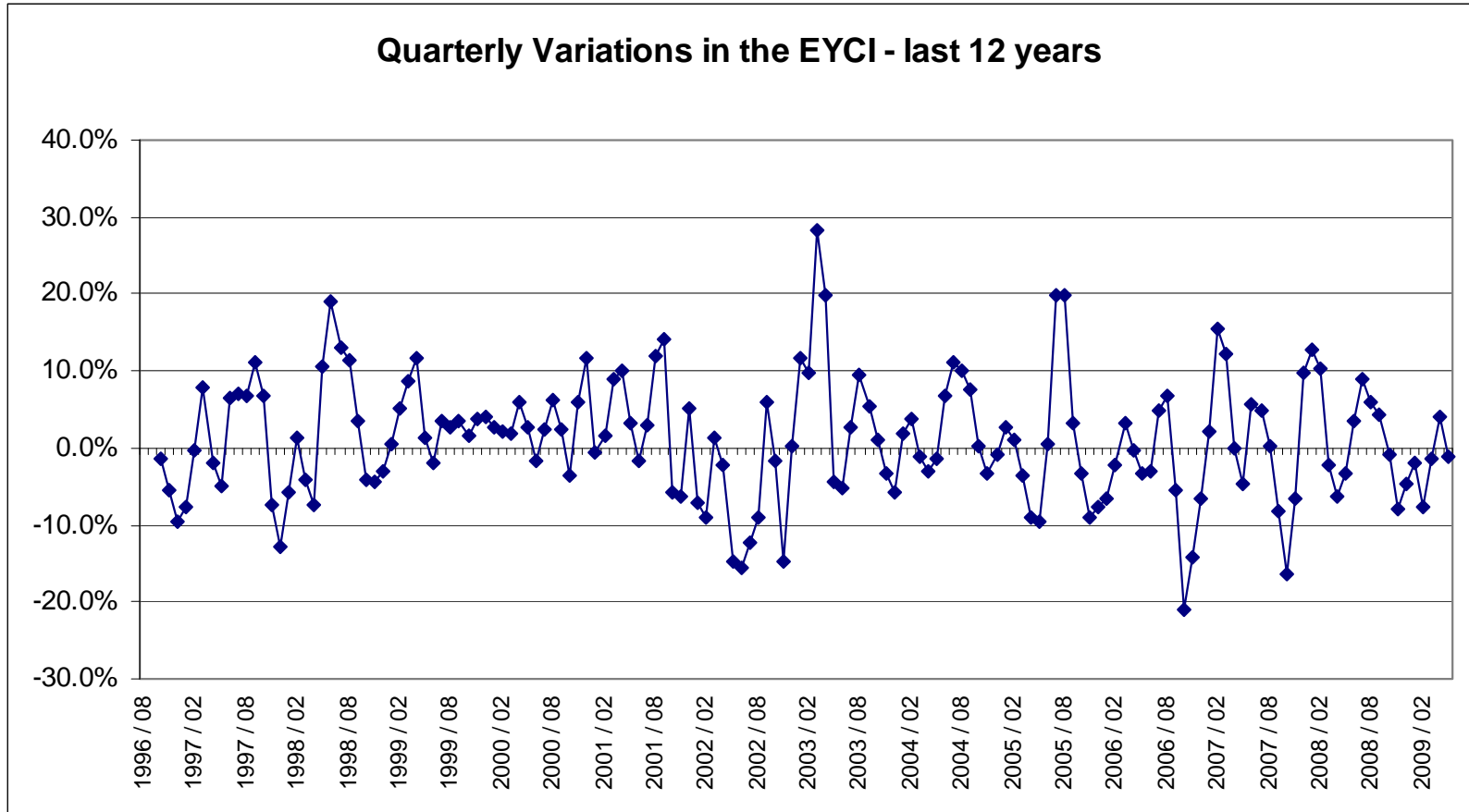
2009 Outlook – Earnings - monthly average EYCI price indicator below Dec 08 levels



Source Data: MLA



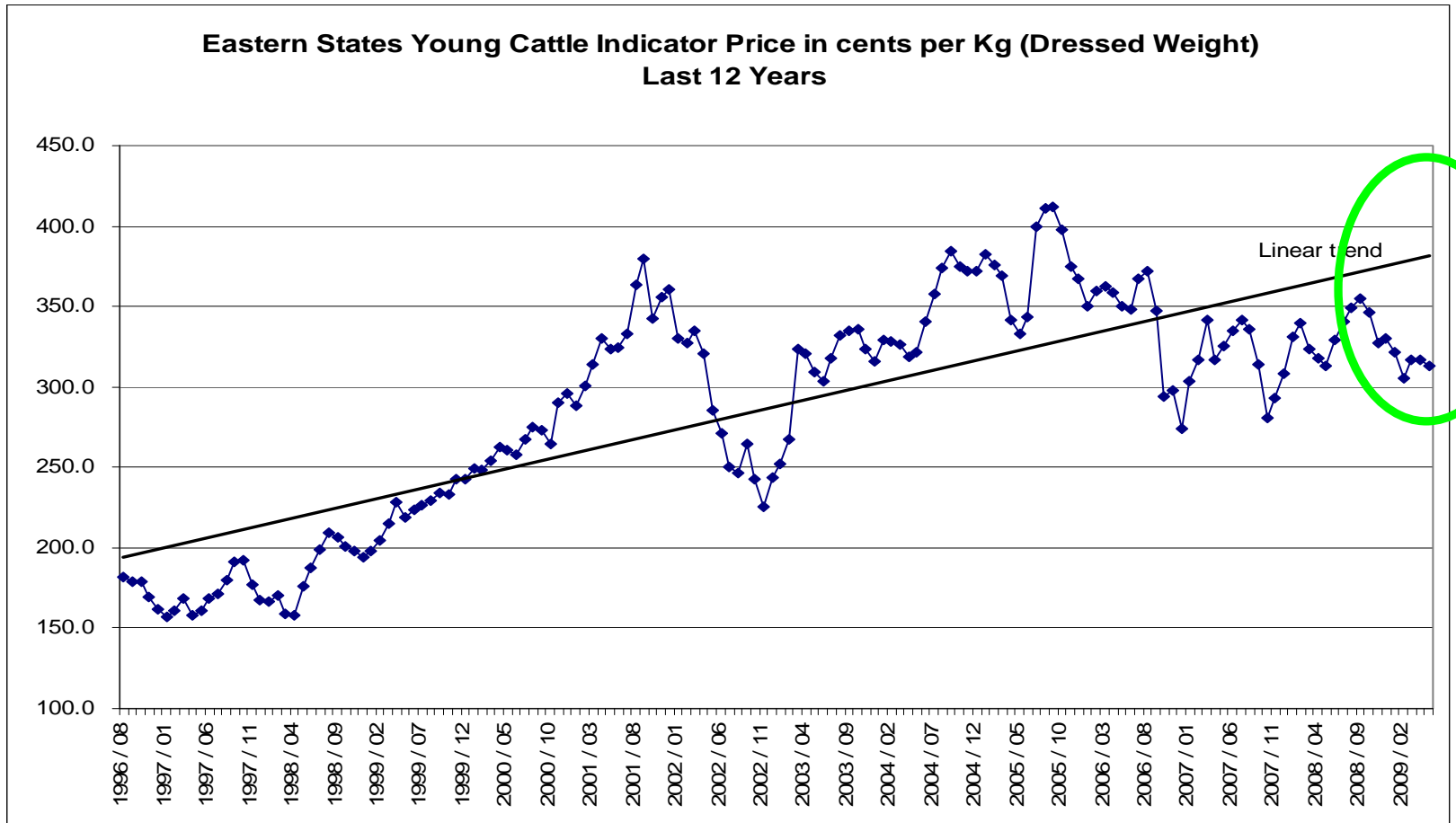
2009 Outlook – Earnings - unpredictable at any point in time



Source Data: MLA



2009 Outlook – Earnings – price indicators below long term trend



Source Data: MLA



2009 Outlook – Cash Flow

- Cash flow after operating and investing activities will be positive by \$130m after restocking.
- Adjusting operating cash flow to include all cattle sales will deliver positive \$10m before restocking.
- Restocking will depend on market opportunities and could range from \$5m - \$30m.
- Restocking to maximise existing land capacity would be in the vicinity of \$10 – \$15m.



2009 Outlook – Net Tangible Assets

The two main drivers of NTA are land assets and cattle.

- Land valuations are not forecast to increase in 2009.
- Cattle values may range +/- 10% of herd value impacting NTA by around 10 cents per share.
- On this basis, NTA should remain in the range of \$2.50 to \$2.70 per share by year end.



Short term operational strategy

Maximise property portfolio utilization

- Transfer breeders back to the Barkly Region from the Gulf
- Mitigate legacy issues
 - Exit Lawn Hill sub lease due to expire in Sept 2009 (releases cash costs of leases and operations of \$4m pa but writes off intangible of \$4m – no NTA impact)
 - Reduce volume requirements from Bull breeding Co-operators

Maximise margin where possible

- Optimise best path to market in live export through Darwin and grain fed cattle to supermarkets and export
- Maintain 1824 and Wagyu supply into profitable markets through the Wholesale beef division



Long term strategic focus continues

Horizon 1: AAco's Core 10-year plan, approved in 2005

- Double herd over 10 years
- Triple feed crop production
- Increase carrying capacity by 20% on selected properties
- Manage land portfolio to optimise value, lower risks and increase geographic diversity
- Leverage economies of scale and continually improve management programs to increase margins
- Increase AAco cattle through feedlots - enhance branded product opportunities
- Increase branded beef production sales to a minimum of 40% of AAco cattle

Horizon 2: Actively explore synergies in associated agribusiness / food production

- Explore downstream activities – cost benefits studies of owning or entering joint ventures in meatworks as an adjunct to the branded beef business noted in Horizon 1
- Explore extension of Feedlot activity to review potential for more stable cash flows for example dairying and integrated crop production
- Explore rural portfolio management activities to earn management fees and to make use of AAco's inherent cattle and rural property management skills

Horizon 3: commence studies in alternate agribusiness concepts

- Examine AAco's potential role in the emerging carbon market
- Examine the potential for AAco's agribusiness expertise to be marketed in other countries



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Appendix A – Rationale for property sales



Review of rationale for property sales

Drought combined with GFC required AAco to consider options to manage its capital base.

- The first tranche of AAco's \$450 million debt facility, being \$200m, was due for refinancing in January 2010
- Elders' overhang constrained access to equity markets
- Alternate equity or direct fund investment also constrained due to the GFC.
- Sale of selected properties allowed AAco to unlock capital value (a core business driver of the company)
- Capital efficient – assets realised at NTA rather than raising equity at a significant discount to NTA.



Review of rationale for property sales

Strong demand for rural property in Northern Australia

- Slowing in the rate of property price increases in Northern Australia in 2008 indicated that market was close to peaking
- Strong demand for AAco properties realised sale prices at book value (equal to market value as at December 2008)
- The property sales have enabled AAco to increase the utilisation of the carrying capacity of its remaining portfolio of land



Sale of the Gulf properties

Strategic shift away from properties supplying Brahman cattle to the domestic market

- AAco's lowest return on beef is Brahman cattle sold into the domestic commodity markets
- Best return on Brahman cattle is through live export sales via best net priced point at Darwin
- The freight, management and logistics costs of transporting Brahman cattle from the Gulf to Darwin adversely impacts margin (ie. dipping, weight loss, freight)



Sale of the Gulf properties

- Of the three properties, only one was used for breeding and was sold because the environmental conditions were better suited for Brahman cattle (ticks, heat, nutrition)
- The sale allowed AAco to unlock capital value generated through improving land values and development and by increasing carrying capacity
- No detrimental impact on the remaining properties in AAco's supply chain (i.e. Wagyu, 1824, supermarket, grain fed export and live export)



Sale of Rockhampton Downs

Cash returns important in the current economy.

- As a result of severe drought conditions, Rockhampton Downs was de-stocked in 2008
- Cost of re-stocking was estimated at \$15m - \$20m and:
 - would not have yielded a cash return on calves produced for 2-3 years
 - would not have delivered animals to be sold until 2011-12
- AAco would have had to fund this property (land and cattle base of around \$55 million) for two to three years without realising any cash return on calves until eventual sale as finished cattle.



Sale of Rockhampton Downs

The sale of Rockhampton Downs realised two key benefits for AAco:

- Increased utilisation of AAco's adjoining properties generating economies of scale
- The unlocking of \$35.7m in capital value in the balance sheet created through ongoing development of the property:
 - carrying capacity increased from 17,500 in 2005 to 28,000 head in 2008 giving a gross capital gain in excess of \$10m.



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Appendix B – Shareholder returns



Shareholder returns

- AAco has provided an average shareholder return over the past 5 years in excess of 9%
- AAco's performance when measured against its peer group puts it near the top of its sector

Code	Company	Market Cap	Average SH return last 5 years
TGR	Tassal Group	285,473,079	20.9%
AAC	Australian Agricultural Company Limited	406,967,266	9.2%
ABB	ABB Grain Ltd	1,463,635,193	7.1%
WES	Wesfarmers Limited	16,271,413,477	3.0%
CSR	CSR Limited	1,864,785,821	1.4%
RIC	Ridley Corporation Limited	243,175,486	-3.3%
GNC	Graincorp Limited	476,144,460	-7.7%
SHV	Select Harvests Limited	128,436,473	-8.0%
RHL	Ruralco Holdings Limited	104,536,639	-8.2%
GNS	Gunns Limited	636,869,428	-16.9%
ELD	Elders Limited	323,570,192	-20.5%
AWB	AWB Limited	410,656,743	-22.0%
GTP	Great Southern	n/a	In Receivership
TIM	Timbercorp	n/a	In Receivership



Broker recommendations

- Independent analysts regard AAco as undervalued at current prices (\$1.60)
 - Valuations based on net asset value - reported earnings regarded as meaningless
 - Support sale of properties to realise cash and pay down debt
 - Viewed sale of Elders holding as a key step in eliminating the discount in the share price