



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

## **AAco Half-Year Financial Report 2009**

**ASX Announcement 88/2009**

**11 August 2009**

Australian Agricultural Company Limited (AAco) today released its Half-Year Financial Report for the period ended 30 June 2009.

The Company made a \$30 million loss for the six months, compared to a \$2 million loss for the six months ended 30 June 2008.

This result was negatively affected by a range of factors including:

- A severe one in ninety year drought across the Barkly Tableland in 2008, during which around 100,000 head of cattle either transferred to other properties or into the cattle market prematurely.
- A one in thirty year flood in early 2009, further impacting on the rebuilding of the herd from the 2008 year.
- Delays in the sale of cattle due to poor prices and difficult conditions on most properties following the flooding in early 2009.
- Low cattle prices throughout the period, included in the mark-to-market valuation of the herd at 30 June 2009. Cattle prices have since improved subsequent to 30 June 2009.
- Lower number of calves recorded in the six months as natural increases, due to a combination of factors, including significant losses due to flooding in early 2009 and seasonality in the live cattle business.
- Loss of operating revenue from the properties sold, which, however, still incurred operating costs for the majority of the first half.
- Additional one-off costs for the period including flood related equipment damage, which is expected to be largely recovered from insurers, a provision for a potential liability related to a sub-lease taken out by Great Southern Plantations Limited, and transaction costs relating to potential property acquisitions proposed during the first six months.

However, four cattle stations were sold during the period at current book value, generating total proceeds of \$141 million, plus the sale of a livestock herd for a further \$40 million, resulting in an overall positive net cash flow of \$135 million for the period. As a result, the Company made short term debt repayments of \$108.8 million, which reduced gearing from 38% to 32%. Operating costs also reduced by \$8.3 million in the first half, with the Company on target for \$20 million reduction for the year, in comparison to 2008.

During the period, other key events included:

- The exit of Elders from the share register.
- IFFCO/Felda joint venture joined the share register as 19.99% shareholder.
- A new Board being appointed at the AGM on 12 June 2009, with the subsequent appointment of a new Chairman, Mr Stephen Lonie.

Stephen Lonie, Chairman of AAco, said the Company has had a difficult six month period and been adversely affected by severe weather events, which have impacted the cattle herd and thus profitability and cash flow.

“The Company has faced weather conditions that have gone from one extreme to the other: a severe drought which impacted on the Barkly Tableland region in 2008, followed by heavy sustained flooding in January 2009 and February 2009. Combined with low cattle prices, additional one-off costs, lower reported natural increases of calves compared to 2008 and cattle losses due to the early year flooding, the Company faced significant challenges during the period, which have affected these results.”

“However, the Company has managed to make important progress in a number of areas. The NTA remains robust, cash generation from the sale of the four cattle stations has allowed the Company to lower gearing and management has made progress in reducing operating costs,” Mr Lonie said.

## **Management**

After careful deliberation, the Board determined that AAco required a new perspective in leading the Company forward and has decided to restructure the executive management at the Company. As part of this restructure, Chief Executive Officer Stephen Toms and Chief Operating Officer David Connolly will step down from their current positions and depart the Company.

The Board has initiated a recruitment process to appoint a new Managing Director for the Company, with a leading executive recruitment consultant, Mr Andrew Banks, engaged on the project. It is currently anticipated that a new Managing Director will be announced within the next four months.

In the interim period, the Company’s Chairman, Stephen Lonie, will assume overall management responsibility as Executive Chairman. Mr Lonie will be assisted by a Board management committee involving Nick Burton Taylor and Peter Hughes.

Mr Lonie said the Board has great confidence in the ability of the people at AAco to meet the challenges of the business.

“The Board has confidence in its underlying management processes and looks forward to the strong and effective involvement of the management team in this transition period. I would also like to personally thank Mr Toms and Mr Connolly, acknowledge their contributions through a difficult period in the Company’s history and wish them both well for the future,” Mr Lonie said.

## **Capital management**

Contrary to recent speculation, the Board does not intend to initiate any form of equity raising in the near term.

The current strategy is to refinance the existing bank facilities with a new three year facility, which will provide extended flexibility to enable the Board and management to pursue other valuable opportunities in regard to its business model.

The Company's asset base and underlying cash flows offer the level of security that supports this refinancing strategy.

The Board is confident that it will be able to refinance the existing debt facilities, based on discussions with financiers to date.

## **Dividends**

In terms of dividends, the Board will continue to monitor the outlook closely, along with the capital requirements of the business. The reintroduction of dividends will depend on the performance of the business and the profitability into the future.

## **Looking forward**

Mr Lonie said the outlook for the second half is for better business conditions and improvement in financial performance.

"The seasonal circumstances have broken the drought and replenished feed reserves in all areas of the Company's property portfolio, which provides a sound base for pastoral activities in the second half of 2009 and into 2010."

"Looking forward, assuming the current cattle prices hold steady, the Company is forecasting a profit for the second half. In particular, asset utilisation should improve following restocking activities and property sales in the first half. Expenses will also reduce further, with the full period impact of the property sales flowing through in the second half."

"From the beef sales and marketing perspective, demand for Australian beef is still holding up and new geographic market opportunities are currently being explored," Mr Lonie said.

As advised previously, the Board has also implemented a process to review the Company's strategic position. The process is ongoing and designed to ensure the Company is best positioned to build long term shareholder value.

The AAcO business is built around three distinct, complementary business operations:

1. 70 to 100 day grain fed cattle, which underpin the Company's 1824 AAcO branded product and domestic and export grain fed beef product;
2. Wagyu grain fed beef product, predominately focused on the northern Asian export markets; and
3. Live export cattle.

These three vertically integrated beef product chains are critical to the Company's current position and future profitability and cash generation. The Board intends to continue the development of these three supply chains, with a particular focus on the generation of higher asset productivity and increased cash returns.

At the core of the Company's value creation is growing the total number of cattle under management. This function is supported by the Company's core breeding properties on the Barkly Tableland, Gulf and Victoria River regions.

The Company will continue rebuilding its breeding and trading herds through 2009, supported by excellent conditions on the Barkly Tableland and Gulf properties. Importantly, this herd restocking will be financed by internally generated cash flows. The Company will also look to carry trade cattle through the next wet season into a more prospective 2010 year.

### **AAco**

Australian Agricultural Company Limited – AAco (ASX:AAC) – is the largest beef cattle company in Australia. AAco was established in 1824 and is the oldest continuously operating company in Australia.

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