



**Ridley Corporation Limited**

**Annual General Meeting – 25 October 2004**

**CHAIRMAN'S ADDRESS**

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Welcome once again to Ridley Corporation's Annual General Meeting.

In my address today I will comment on our results for fiscal 2004, about some particular issues impacting our business over that year and into the current year, and I will make some comments on how we have fared in the first quarter of fiscal 2005 and the outlook for the balance of the year.

At the conclusion of my address, I will invite our Managing Director and CEO, Matthew Bickford-Smith to say a few words about our company and its performance, from his perspective. Following Matthew's comments, the financial statements and reports will be open for consideration by, and questions from, shareholders.

So let me start with some comments on fiscal 2004, the financial results for which, by any yardstick, were quite disappointing and unsatisfactory.

Nett profit after tax at \$17.7 million, was well down on the result of \$31.3 million in the previous year and the \$32.2 million earned in the year before that. Our operating earnings before interest and tax were also well down on each of the prior years - \$47 million in fiscal 2004 compared with \$71 million in fiscal 2003 and \$77 million in fiscal 2002.

On a more positive note, the nett cash flow remained quite strong despite the weak earnings, which allowed us to further reduce debt and improve gearing – down to 33.4% at year end compared to 41.2% at the start of the year – and also, I should say, maintain our annual dividend at the prior year's level of 5.75 cents per share fully-franked.

On a divisional basis, Ridley AgriProducts delivered an EBIT result of only \$7.0 million, down some 65% on the previous year's result which had been positively impacted by drought-induced demand. In 2004, volume was down by 7%, reflecting reduced demand from both dairy and cattle industries; and fluctuating grain prices as drought conditions eased created pressure on margins in part of the year. By year's end, results were improving, and this improvement has continued into the current year.

Cheetham Salt's earnings at \$19.6 million were down 11% on the prior year, ending an 11 year run of year-on-year earnings improvements. Cheetham's results were down mainly because of reduced sales of salt to the hides and skins, casings and stockfeed markets, once again drought related.

Ridley Inc's earnings at EBIT level were \$27.4 million, down 23% on last year. The reduced earnings arose from reduced demand in USA following the cessation of a US Government



drought assistance program, reduced demand in Canada due to difficult conditions in the Canadian beef and pork industries due to border closures following the BSE outbreak, and unfavourable CN/US dollar exchange rates. The strong Australian dollar, relative to the US dollar, also adversely affected the year-on-year comparison of the North American earnings when translated to Australian dollars.

From an overall perspective, it must be said that fiscal 2004 was one of the most volatile years that I have experienced in my twenty years in the animal feed industry. Drought and adverse weather influences, volatile commodity prices and exchange rates, disease threats from BSE and Avian Influenza, trade disputes and border closures, combined to underline the inherent uncertainties of agriculture and agriculture-related businesses. It was a year to remember and – equally – a year to forget. Despite the inadequate results, however, it was a year in which, I believe, management and our management systems performed well. A tough year in a volatile and difficult environment.

With the intense focus by management on the operating volatility of the businesses, fiscal 2004 turned out to be a year of relatively modest activity on the acquisition front. Several opportunities that were investigated turned out to not meet our financial return or risk profile requirements. However, just after year end, we did acquire a significant US based block operation – Sweetlix – which offers significant synergies with our existing, very successful low moisture block business. Sweetlix now operates as part of the Ridley Block Operations of Ridley Inc, which has recently been incorporated into a new division of Ridley Inc entitled Ridley Nutrition Solutions. Other opportunities in both Australia and North America are under evaluation at present and will be pursued as appropriate. Management has also spent some considerable time in the past year on the issue of corporate restructuring that was touched on last year. Whilst no firm decisions have been made we feel we have made substantial progress in understanding the options we have before us, and we would expect to announce some decisions on this matter in the present financial year.

Our businesses also successfully launched several new, innovative products during the year, and Cheetham Salt opened its office in Japan with the aim of significantly increasing our exports of retail salt to that market.

On the corporate front, we have, once again, spent some considerable time on corporate governance matters. We have achieved a very high level of compliance with the ASX Corporate Governance Guidelines. Your attention is drawn for more detail on these matters to pages 18-21 of our Annual Report and to the Corporate Governance section of our recently up-graded, more informative and more user-friendly website.

We also established during the year a Risk Review Committee chaired by one of our non-executive directors, Professor Vizard, and, as you will see from the Annual Report, we made some real progress on sustainability reporting and on enhancing the eco-efficiency of our operations.

Now let me turn to the current year. For the first quarter, Ridley AgriProducts and Cheetham have produced operating earnings ahead of last year whilst Ridley Inc, particularly the feed



businesses in Canada and USA, has had a somewhat slow start. A significant cost reduction program has been initiated in North America to counter these adverse results. On an overall company basis we were slightly behind last year for the quarter at the operating profit line. Looking ahead, we need to recognise that several of the external factors which affected our business last year – BSE, Avian Flu, closure of the North Asian markets to North American beef – could re-emerge at any time and adversely affect our businesses. However, on balance, there seem to be reasonable prospects that we will do better this year than last, Matthew will have more to say on this matter in his address shortly.

I want to end my address with some comments about our people. We employ just over 2,000 people, about half of whom are in North America – Canada as well as USA – and the remainder are predominantly in Australia, with just a few in New Zealand, Indonesia and Japan. When the external environment is volatile and uncertain, our people come under increased stress to perform. In a quite stressful year, all of our people – from Matthew down – performed well, and I would like to thank them most sincerely today on your behalf.

At board level, you will no doubt be aware that our deputy Chairman, Donald McGauchie, was elected in mid 2004 to the Chairmanship of Telstra. As a consequence of his greatly increased workload at Telstra, Donald undertook a review of his portfolio of directorships and resigned his directorship of Ridley in mid October. Donald had been a director of Ridley since 1998 and was a significant contributor at board level over the years. I thank him for those contributions and wish him well for the future.

To my fellow directors may I say on your behalf, ladies and gentlemen, thank you for your valued and thoughtful contributions throughout the year on behalf of the company and its shareholders.



**CHIEF EXECUTIVE OFFICER'S ADDRESS  
RIDLEY ANNUAL GENERAL MEETING  
25 October 2004**

Thank you John and good morning. I too would like to extend my welcome to this year's Ridley AGM.

Before I start my address I would like to thank everyone at Ridley this year for their persistence and professionalism in handling what has been one of the toughest environments the company has had to navigate its way through; certainly at least since I have been at Ridley.

I think for anyone it is a challenge to address Shareholders after releasing a disappointing set of results. It was suggested that one approach this year could simply be to blame the broader environment – possibly the weather! However, I believe our shareholders have come to expect more than that from us, and we have always believed in providing clarity at least where we can. Before I get into specifics I firstly wanted to share with you how we feel about our results last year, what we could have done differently and what you can expect from us going forward. Last years results by any measure were disappointing. A 43% reduction in NPAT from 2003 and double digit declines in earnings in all our operating divisions. Anyone who took no more than a cursory glance at our results last year could be forgiven for thinking that we had either taken up trading – which we have got very wrong – as a side strategy or simply abandoned all the management disciplines which are fundamental to the way we run Ridley. Of course none of these things happened nor will they going forward. The hard facts are that each of our animal nutrition businesses, which together make up over 90% of our sales revenue were last year caught up in the most difficult operating environment that most of us has seen for many years. As I mentioned in our annual report “a perfect storm” – possibly the very worst set of circumstances any company with a very significant portion of its income geared to agriculture could face. Volatile climate patterns, disease in various forms, politics and general commodity and currency volatility were the recurring items throughout the year, and to a lesser but still to some extent some of these issues are still affecting our businesses today.

While we are able to control the outcome of many aspects of our business the reality is that Ridley as it is currently positioned or any company for that matter is not able to do a great deal about the extremes of weather patterns, outbreaks of disease or political decisions that affect the normal terms of trade of our customers. It is as simple as that.

On the climate front – no amount of tweaking of our business model – such as pursuing a greater exposure to aquafeed or pulling back on sales into the beef sector will prove to be particularly effective in insulating us from the extremes. We simply cannot predict where and when climatic changes will occur, how severe they will be and over what time frame they will last. We thank the investment banks that have offered us weather related over the counter contracts, but suggest that there is a long way to go before we could contemplate using such derivatives to protect us from unfavourable climatic conditions. As we have said before in most years the climate will benefit or crimp our earnings – at the margin. In the extremes we may for a time benefit – possibly very significantly – and at other times it will negatively affect us – possibly very significantly.

On the subject of disease. Whilst we can ensure that we and our customers work effectively to put in place the appropriate bio-security protocols where necessary, it needs to be recognised that disease in many forms is part and parcel of what has to be dealt with by the intensified livestock industries. For long, long periods

disease outbreaks are simply not an issue. When disease does strike and take hold the effects do tend to be considerable, and are potentially a threat to our earnings.

With regards to politics and specifically political interference in the normal terms of trade for our customers; where you get agriculture and politics colliding you very typically end up with a mess and following on from the closure of the US/Canadian border in May 2003 – this is exactly what we currently have. Clearly politics is driving the outcome of this issue rather than science or common sense and it is now clear that we will need to wait until the results of the US election before much or any progress will be made.

The constant assessment we continually need to make is has the rationale for investing and continuing to invest in our animal nutrition businesses changed, or put another way, with a specific focus on last year; are the events that affected us cyclical or structural – and if cyclical are those events forcing structural change and if so does that force us to rethink our views of the returns that may be achievable. Our view is that the turbulent environment we found ourselves in last year was largely cyclical; that is drought and the aftermath in Australia; hugely volatile grain markets in both Australia and the US and continued weakness in Canadian and US hog markets – these are all cyclical events which should not affect us year in year out. Whilst it is difficult to classify disease outbreaks as cyclical the reality is that disease is unlikely to be a permanent feature of the environment and we see such events as largely one offs – unlikely to affect our earnings year after year. Can we say with certainty that these negatives will not again affect us this year and next? Not absolutely, there are few certainties. But what we do feel strongly about is that after a good deal of internal assessment over the course of last year, it will be a mistake to judge the ability of our various divisions to provide satisfactory returns based upon last years results alone.

One issue that we have been specifically asked about over the course of last year by a range of shareholders is how well diversified did we think our earnings from animal nutrition are.

Internally we think about diversification within our animal nutrition businesses across Australia, the US and Canada on a localised basis; that is we focus on the economics of the various specie groups within each country and the resultant exposure we carry in the form of receivables. While the economics of various specie groups are to some extent linked, for example beef, pork and poultry, they are not strongly correlated in terms of the cycles. Therefore a balance of sales mix is important. At a macro level – with specific reference to the climate and disease, by definition of where we operate we are afforded a significant amount of diversification. The events that affected our businesses in Australia, Canada, and the US last year were totally unrelated and as in all businesses or portfolio of various assets diversification works for periods of time and then it doesn't for periods of time. We continue to watch the trends in globalisation and specifically the stop/start approach to free trade – but after assessing the key macro influences it is our view that we do currently enjoy a significant amount of genuine diversification.

What can you expect of Ridley going forward? In terms of the way we run the company on a day to day basis there is unlikely to be many changes of significance this year, the focus will be on continuing to manage our risks as far as we are able, allocate capital prudently to the fastest growing sections of our businesses, and continue to ensure that our balance sheet maintains a high margin of flexibility. Over the last period we have been criticised for allowing our balance sheet to become “lazy”. I have never been quite sure what that means but when reviewing this past year I suspect that our rationale and reasoning is a little clearer. Too often we see investments made in the agri sector under the heading of “you need vision” and/or “you need to have a long term approach”. No doubt for some vehicles that hold investments in the agri sector that is totally appropriate but as a public company listed in Australia our focus remains on being patient and to focus on the opportunities that genuinely add value.

In last years address I raised the issue of the structure of Ridley Corporation, and in particular its relationship with Ridley Inc and the relative inefficiencies within the structure.

Over the course of this past year – a considerable amount of time has been spent reviewing the structure with a view to maximising returns to our Australian shareholders in the most efficient way as possible. Suffice to say whilst a final decision has yet to be signed off on by the board – our thinking is considerably advanced. Given the significance of any restructuring to all stakeholders we do not believe in any way it to be appropriate to “hint” at what the restructuring plan will finally look like or what the exact timing will be. Clearly the objective is to simplify, provide clarity and ultimately create additional value and like everything timing will be crucial. While our reluctance to provide further insight into our thinking will frustrate some – given some of the variables that need consideration and certainty of outcome we are comfortable holding back on any announcement until we have full control of the outcome.

Turning now to the outlook for the current year. Following on from last year where earnings visibility greatly diminished from that of previous years and after acknowledging that some of those issues that plagued us last year are still with us; internally we debated the wisdom of providing specific guidance. However, our strong view is that despite not having a crystal ball we do have a responsibility to provide guidance, based upon what we currently know about our business so far this year and what we are expecting from them going forward. Overall we are expecting a significant improvement over last year’s results. Earnings visibility has improved to some extent – this is certainly the case in Australia however we do not expect this year to be plain sailing and as a management team we will need to keep very tight control on our cost base. In Australia we are very clearly seeing an improvement in earnings across both Ridley AgriProducts and Cheetham Salt. In Ridley AgriProducts volumes and selling margins are both tracking above last year. A comparison versus last year’s earnings after three months shows an improvement in earnings in excess of 100%. One area that we are still seeing a sluggish recovery in is the dairy sector. Confidence is still struggling to recover from the drought despite early seasonal step up payments by the manufacturing dairy companies and a very favourable global outlook. We are however expecting feeding rates to improve in the dairy sector and this will be an important factor for the division if we are to meet our budget expectations this year.

Cheetham’s earnings are above last year largely as the agri sector – that is sales into the stock feed and hides and skins markets in particular – recovers from the effects of the drought. Wider initiatives in supply chain and broader product distribution should see Cheetham post improved results this year.

Ridley Inc has seen a soggy start to the year. Canada is still feeling the effects from the ongoing closure of the US / Canadian border with sales into the beef and swine sector still struggling. In the US margins in the first quarter have been affected by unusually volatile soya meal prices and more recently sales volumes have been affected in the high margin supplements part of the business as hurricane Ivan forced the closure of a plant in Montgomery, Alabama. Whilst none of our factories suffered any major damage as a result of the hurricanes, the southeast part of the US has suffered disruptions to transport and forced electricity outages which has generally prevented the normal movement of product; all of which has impacted earnings in the first quarter. Our response to Ridley Inc’s soggy start to the year has been to focus on a cost reduction program – not dissimilar to that gone through by Ridley AgriProducts last year. Getting these costs down will be crucial but we do have a coherent and well developed plan.

Looking at the group as a whole we expect, basis current trends in Australia and a successful implementation of our cost reduction program in the US and Canada net profit after tax from earnings to be up to 50% higher than last years bottom line of A\$17.7 million.

I would like to conclude by thanking all stakeholders in Ridley that is shareholders, customers, suppliers, employees and advisors for all their support last year and I look forward to working with you this year towards a considerably improved outcome.