



GREAT SOUTHERN
LIMITED



ACN 052 046 536

COMPANY ANNOUNCEMENT

Thursday 19 February 2009

2008 ANNUAL GENERAL MEETING

CHAIRMAN'S ADDRESS

Ladies and gentlemen as you will all be well aware we are living in extraordinary times. The global financial crisis is testing the fabric of the global economy and many of the business models which have been operating successfully over the last decade are now being severely tested. In these uncertain times businesses must recognize that if they are to survive and even prosper it is necessary to question past practices and to adapt to the new realities.

This is particularly true for our company. Great Southern has built up a very strong portfolio of assets over the years, primarily in the form of agricultural landholdings. Our core business and cash flow, however, was predicated on selling MIS projects each year. New challenges caused primarily by the regulatory uncertainties created by Government and the Australian Taxation Office and by changes in Australian economic conditions, has meant that our core business model of simply selling increasing volumes of MIS product is no longer appropriate going forward. This is particularly the case given the increased operational costs that the company needs to continue to meet in respect arising from projects previously sold and the level of debt the company must service as a result of acquiring the land and capital equipment needed to facilitate past sales. Great Southern needs to reduce its overall debt levels and cost structure and decrease its reliance on the level of MIS sales.

As shareholders you will be aware that as a result of these issues Great Southern began a process of reviewing its business model last February which led to a decision to proceed with "Project Transform". The purpose of Project Transform was to marry the valuable largely land based rural assets of Great Southern with the future cash flows which would be derived by MIS investors from their projects in the future to produce a more lowly geared business with a more robust cash flow which would be well positioned to exploit the opportunities evident within the forestry, cattle and horticultural sectors. MIS sales would remain a key business of Great Southern but with a reduced relative importance in terms of profits and cash flows.



Shareholders will also be aware that Great Southern pushed forward with Project Transform and notwithstanding some epic headwinds, was able to achieve a level of success insofar as it was able to consolidate the two beef cattle projects by way of two successful schemes of arrangement and achieve a level of success from individual offers which gave it an increased interest in the plantation projects running from 1998 to 2003. In general terms Great Southern has an interest averaging 14.5% in the 1998 to 2000 projects and a 25.9% average interest in the 2001 to 2003 projects in addition to its existing 5.5% interest in net harvest proceeds across all projects.

This level of success has improved the balance sheet gearing ratios of Great Southern and provided it with a great deal more flexibility in how it manages or disposes of its cattle assets. The level of success of the individual offers for interests in the plantation projects will also provide some future cash flow benefits and some increased flexibility in how the company is able to deal with its plantation assets.

While we regard the achievements Project Transform as being a material step forward in the restructure of Great Southern it does not mean that the company faces a future without substantial challenges. These challenges have been well documented in the Company's prospectuses, supplementary prospectuses and annual report. In particular Project Transform was designed to provide increased, reliable and sustainable cash flows and earnings to reduce the reliance on MIS sales and whilst partially successful, short term cash flow and earnings remain as issues which need to be addressed.

The board is acutely aware that our share price has fallen substantially and that whilst we have quality and strong assets, with net asset backing per share of approximately \$1.14 per share, our share price is trading at a considerable discount to net asset backing. We think that it is clear that the share price reflects uncertainties associated with cash flow, legacy costs, gearing levels, capital structure and future earnings that must be satisfactorily addressed before our assets will be appropriately valued by the market.

The fact that we recognised these issues a year ago and implemented a strategy to address them has already placed the company in a relatively stronger position. The board recognises that economic conditions have significantly worsened since we began this process of change and that we still have a great deal of work to do to successfully execute Great Southern's strategy.



Great Southern operates a complex business and it faces complex issues. The Company will need to work very hard to sell MIS products in a difficult market, sell assets and carefully manage its banking arrangements, cash position and capital structure however the board believes that the Company does have its opportunities to meet those challenges and complexities.

Great Southern is exploring a range of alternative options to meet its future funding needs and since there are very limited opportunities to raise cash through issuing equity in this market the sale of assets will need to be a key part of our business plans. Whilst there are many companies looking to sell down assets at present Great Southern does have a number of quality assets in sectors which are still attracting global interest and this offers opportunities for asset sales and also part sales to form alliances with significant industry players. The Company will vigorously pursue these opportunities with the goal of realising value, improving cash flows and reducing debt whilst looking to retain key assets that can provide the platform for earnings and cash flow in the longer term.

Great Southern's Managing Director Cameron Rhodes will talk more about the company's strategy for the coming year shortly.

If we turn now to the results of the financial year ending the 30 September 2008, it is clear that the results represented a disappointing set of numbers. MIS sales declined by 24% to \$314 million. As I already mentioned, this decline was in part a result of the external factors due to uncertainties over the MIS industry created by Government and ATO and in part also to the rapidly deteriorating economic conditions which became evident late last financial year when sales are traditionally at their peak.

Profits before tax and asset write-downs reduced to \$19.2 million which after allowance for goodwill impairment and doubtful debts produced a reported after-tax loss of \$63.8 million. Net operating cash inflows reduced by 57.3% to \$86.9 million and as a result of the reduction to net assets gearing levels increased to 53% from 46% as measured by the ratio of debt to debt plus equity. From shareholders point of view dividends were reduced to 3 cents with no final dividend and the share price has declined significantly.

These disappointing numbers underline the fact that Great Southern needs to reduce its reliance on MIS sales to generate the revenues required to service higher operating cost and higher gearing the business currently carries. The other factor which is evident in the results is the impact of the deteriorating economic conditions on bad debts and provisioning.

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The overall balance sheet has remained relatively robust with net assets of \$706 million on total assets of \$1,790 million and again highlights the strength of Great Southern's assets. The challenge for the business is to use this asset strength to drive improvements in earnings and cash flow overtime.

While it has been a disappointing year for shareholders it has been a gruelling one for our staff who have had to work extraordinary hours running the business, dealing with the issues these times throw up as well as progressing Project Transform with its eight schemes of arrangements. The coming year has every prospect of being just as hard on staff. This is in a year when no Short Term Incentives were paid and no Long Term Investments look like vesting over the next few years. The Board thanks the staff for the work done to date and the energy and enthusiasm with which they are tackling the challenges before the Company.

I will now ask managing director Cameron Rhodes to share with you now our plans and priorities for the coming year.

MANAGING DIRECTOR'S ADDRESS

Thanks David and good morning ladies and gentlemen.

It is now 12 months since I assumed the role of Managing Director and what a 12 months it has turned out to be.

Whilst a significant number of issues and factors have impacted our company over the last year, probably the single biggest issue has been uncertainty – uncertainty in global equity and debt markets – uncertainty with regards to the MIS industry – and uncertainty as to the extent to which the Project Transform proposal would be accepted by project investors and the impact this would then have on our company.

Whilst unfortunately the uncertainties associated with global issues may remain for some time yet, a great deal of the other uncertainty is now significantly clearer. In particular, the uncertainties associated with the ATO's position on non forestry MIS have been resolved with the test case outcome in December and the uncertainties regarding the Project Transform proposal process has



been resolved with the success of the Beef Cattle projects and a proportional success in the Plantation Individual Offers.

However the removal of some of these uncertainties does not remove the challenges before us. It does, however, provide us with a clearer path forward and an ability to pursue our core objectives and priorities with far greater clarity and resolve.

12 months ago as I assumed the role of Managing Director we began a strategic review of our company. This strategic review identified that the company needed to reduce its gearing levels, to diversify its revenue and earnings, to reduce costs and to build a stronger and more sustainable business for the future. Whilst we have made many in-roads towards these objectives, there is still much work to do.

In now looking at our strategy for the future we will and must be dictated by our short term imperatives. The world in which we operate has changed, the industries in which we operate have changed and our business itself has changed. Our capital structure, and in particular the level of debt and gearing within the company, is too high in today's economic climate and must be reduced. Our short term imperatives must be focused on cash and capital management as we will be unable to pursue with vigour longer term strategies and opportunities unless and until the shorter term issues are addressed and resolved. By focusing on the short term imperatives we aim to build a stronger company and to provide a solid platform from which opportunities within the sectors in which we operate can be pursued.

In the short term we must focus on the fact that we have \$105 million of debt due to be repaid or renegotiated by October this year, we have our TREES2 securities that need to be repaid, reset or converted by the end of October this year and we have to generate revenues through the sale of MIS product in a still challenging and uncertain environment. Our short term priorities are and must be focused around maximising cash, reducing debt, re-setting the capital structure and selling profitable and cash flow positive MIS product.

With our short term priorities clear, we can look to the three business streams within the company – forestry, cattle and agricultural investment services - and seek the appropriate courses of action within each of those business streams to meet our short term objectives whilst at the same time considering longer term considerations and opportunities. The key challenge before us is to balance the desire to protect our core strategic assets and preserve their value and the opportunities they will create in the



long term, with the imperatives of changing our capital and cost structure to one more appropriate for our company and the current market conditions in the short term.

Whilst we have been successful through the Transform process in creating a large and diverse cattle business, and though we see great opportunities in this business sector in the longer term, in order to simplify our business, focus on our core competency in forestry and most importantly to reduce debt, we have taken the decision to divest selected cattle assets and exit leased cattle properties over time. Our cattle assets have a total book value of approximately \$235 million and selling selected assets will allow us to use the sale proceeds to reduce our corporate debt facility significantly.

In respect of our plantation forestry business, Great Southern remains one of the largest hardwood plantation forestry companies within Australia with landholdings in excess of 180,000 hectares and we have added to our assets with the acquisition of approximately \$64 million of MIS interests in the 1998 to 2003 projects which is estimated to provide in excess of \$125 million of net harvest proceeds over the next 5 years. Our forestry estate has grown significantly over the years and we now manage plantations in many regions of Australia. Following a recent review of our forestry business, we consider it appropriate to focus forestry operations in 4 key regions, being the South West of WA, the Green Triangle region of Victoria and South Australia (including Kangaroo Island) and the Tiwi Islands in respect of our hardwood pulpwood estate and Northern Australia for our high value timber estate. By focusing on key core regions we will be able to consolidate our business, build further economies of scale, seek to capitalise on value adding opportunities and to look at other strategic opportunities, potentially with other partners, within these specific regions. The company's other forestry areas on the East Coast of Australia will be non core areas and whilst we will continue to manage the plantations located in these regions until harvest, we will seek opportunities to realise value from the land holdings within these regions, which have a current book value of approximately \$120 million.

Within our core regions we will as I said seek to build on the already strong position we have in these regions and to capitalise on further opportunity. There are some very real opportunities in the longer term with respect to forestry, and carbon and alternative energy markets are very clear examples of such opportunities that are beginning to emerge within this sector. Specifically, the Government's Carbon Pollution Reduction Scheme White Paper indicates that rotational pulpwood forestry operators are likely to be able to generate permits under the proposed carbon scheme, as long as they commit to a long term forestry plan. We will continue to explore opportunities in regards to carbon, particularly once draft legislation for the scheme has been released. As we continue to manage our estate and to further increase our harvesting volumes, processing and value adding



opportunities will also continue to grow. In the shorter term we will continue to pursue strategic opportunities within our core forestry regions, either directly or potentially with other strategic partners, to meet both our short term priorities as well as the longer term prospects.

Our company has been built on the back of a very successful managed investment scheme business and this business within the broader agricultural funds management sector will continue to provide opportunities for our company. However, how we manage this business and how we seek to realise opportunity needs to change to reflect the new circumstances. These are indeed challenging economic times and the sale of our agricultural investment products will have challenges particularly in the short term. However, with a focus on forestry MIS, and in particular building on the success of our high value timber product and a new pulpwood based product requiring significantly less capital investment through a combination of utilising second rotation land and investors ownership of land will provide revenue and cashflow for the company. In addition, following the recent test case decision on non forestry MIS we will pursue opportunity in this area with a small, but strategically important almond project to be offered this year which will use existing land and infrastructure thereby having minimum capital expenditure requirements but providing earnings and cashflow for a number of future years.

As I said, we must recognise that the MIS market will be a challenging one this year with suggestions by industry commentators that the overall market could be reduced by around 50% from last year's level. Despite the economic conditions, investments in truly diversified sectors such as forestry and agriculture, coupled with the tax efficiency of the products, should mean there is still demand for these sort of projects and coupled with reduced supply of product, we believe there still remains very real opportunities for this side of our business, albeit at lower levels than experienced in the past.

Aside from our core three business streams, we continue to manage the broader company within the short term objectives that we have set. In particular, we are, as previously disclosed, pursuing the sale of our on balance sheet loan book which, despite the prevailing market conditions and an environment in which such assets are selling for less than 50 cents in the dollar, can generate important cashflow for the company without impacting on our core activities. We also continue to pursue one of the key strategic objectives we set in reducing the cost structure of the company. In this regard, we have already reduced staff costs since July through a combination of redundancies, flexible working arrangements and other salary reduction measures by more than \$10 million on an annualised basis and reduced the employee headcount by 138 or nearly 30%. We have reduced



operational spend significantly and continue to pursue opportunities to reduce or eliminate ongoing legacy costs that we incur in respect of our past MIS sales.

Included in the items of business before this meeting today are resolutions to allow all directors to salary sacrifice into shares of the company and if passed, it is each directors' intention to indeed sacrifice a proportion of their remuneration. Our intention to do this is reflective not only of our commitment to reduce the cash outflow of the company, but also demonstrates our faith and commitment in the company.

As I said earlier, these are challenging times and as a company we must face our challenges head on which will undoubtedly mean some further pain in the short term, particularly with respect to earnings and dividends. Whilst our short term priorities in cash and capital management are clear, such a focus will impact earnings. Our half year earnings this year will already be significantly impacted by the accounting implications of the Project Transform process. As foreshadowed in the company's prospectus regarding this transaction, accounting for the success in the cattle projects will necessitate recognising for accounting purposes an expense associated with cancelling the relevant contracts with MIS investors, which, together with the other transactional and financial costs associated with the transaction, will mean an accounting expense of approximately \$65 million being booked. Whilst such a loss is an accounting loss and the transaction has allowed us to un-encumber assets and ultimately to be able to generate free cash to meet our short term priorities, the fact remains that our half year results will be a loss. If we add to that the accounting implications if our loan book is sold at less than book value as well as our normal operational expenditures and revenues heavily skewed to the last half of the financial year, that half year loss is likely to be significant. Whilst I would expect our full year result will benefit from MIS sales revenues in particular, the fact that such sales are likely to be materially lower than previous years will mean that we need to look beyond the current year before the company will be in a position to return to profitable trading. These issues together with our immediate priorities, also means there is not likely to be dividends for the current financial year.

These are undoubtedly troubled times and I am sure the expectation of reported losses and no dividends highlights that fact for shareholders in our company. However, I believe we can emerge from these times by having clarity and confidence in pursuit of our objectives and to ensure that our short term priorities and challenges are met so as to provide a solid platform for further growth.

We have already taken many steps forward in pursuit of the strategic objectives we set last year. We have acquired MIS interests in difficult market conditions, we have reduced costs and we have

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recognised and begun to action our short term priorities focused on cash management and debt reduction. Our pathway forward is now dependant upon us navigating that path and actively and vigorously pursuing the short term objectives and priorities that we have set. In this regard, we have a clear 5 point plan to meet our short term priorities. This is;

- to sell our non core loan book for which we are already in our sale process with interested parties;
- to sell selected cattle assets for which we have begun a sale process and are already in discussions with some interested parties;
- to consolidate our forestry business into core areas and seek to realise value through the sale of non core assets and/or to potentially seek strategic partners to assist in unlocking further value from our assets;
- to continue to reduce operational and legacy costs; and
- to pursue MIS sales focused predominantly on forestry MIS products.

But if we look beyond the short term, there can be significant opportunities for us ahead. We operate within the forestry and agricultural sectors which I believe offer real benefits and real opportunities, particularly for Australian companies with our proximities to the key Asian markets.

The last week or so of course have highlighted the vagaries of agriculture, with some of our forestry estate threatened by bush fires in Victoria at the same time as other parts of our estate were under water with the record floods in Queensland. On this point I should highlight that whilst we suffered no real damage to our forestry estate, I am proud of the fact that your company has provided very tangible assistance to the fire crisis, in that our forestry personnel and fire fighting equipment were provided to assist in the fire management task and therefore the people and resources of Great Southern has played a small, but I believe important role in the efforts against this tragic event. The fact that we are a leading plantation forestry company means fire is a constant issue but the fact that our forestry team around the country are members of voluntary fire brigades and the company's people and resources are available and provided not only to protect our assets but those of our rural neighbours, is I believe, noteworthy.

Notwithstanding climatic risk, forestry and agriculture assets are in high demand and there is a great deal of international interest in quality and strategic forestry and agricultural assets which provides us with a good basis given the quality assets under the company's control.

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There are still opportunities in agricultural funds management and this business, coupled with a forestry estate focused on core regions and value adding opportunities can provide this company with long term potential to create positive shareholder value. There are opportunities to realise earnings and cashflow through MIS, through our second rotation land assets, through carbon and alternative energy markets and through operational and industrial pursuits in processing and value add areas. These opportunities, in a debt reduced company, will be strongly pursued once the short term issues and challenges are behind us with a very strong emphasis on returning to profitability, to sustainability and to building our share price to a level more reflective of the assets and opportunities before us.

Please be assured that I and the entire Great Southern management team will continue to work tirelessly to achieve those goals.

Thank you

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