



MLA annual report 2006-07



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Highlights 2006-07

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WHO WE ARE

Meat & Livestock Australia Limited (MLA) is a producer-owned company. We provide services and solutions to the entire red meat industry including producers, processors, retailers, exporters and live exporters.

We are funded by:

- transaction levies paid on livestock sales
- Australian Government dollar-for-dollar funds for investment in research and development
- co-operative contributions from individual processors, wholesalers, foodservice operators and retailers
- contributions by processor and live export industry bodies

OUR MISSION

To deliver world-class services and solutions in partnership with industry and government.

OUR VALUES

- Collaborate with stakeholders
- Seek excellence
- Deliver value
- Work as a team and meet deadlines
- Act with integrity
- Never forget where the money comes from



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GROW DEMAND

The launch of our **'Kids love beef'** campaign has improved mothers' attitudes to beef consumption and increased beef sales. **Page 16**

Our Father's Day **promotion in Japan** encouraged Japanese families to serve up 21% more **Aussie Beef** and increased Australia's market share to 74% during the promotion. **Page 19**

Our **'Vote Lamb'** campaign with Sam Kekovich for Australia Day helped drive up lamb servings by 15%. **Page 16**

Industry collaborative agreements for the promotion of Australian bred, locally fed Indonesian beef brands gained 100% spike in sales. **Page 21**

MARKET ACCESS

We worked with industry and governments to improve health protocols in Libya, paving the way for the **resumption of Australia's livestock trade**. **Page 21**

The **beef import tariff snapback** in Japan was averted preventing an increase of the tariff to 50%. **Page 22**

Cow catcher II – a simulation exercise to independently **audit NLIS** against the National Traceability Performance Standards demonstrated the system performs extremely well. **Page 26**

DEVELOP COMPETITIVENESS AND SUSTAINABILITY

A new technology that de-hairs lamb ears so that they can be sold as pet treats was successfully piloted. **Page 24**

Remote monitoring systems are reducing labour requirements on pastoral properties. **Page 35**

An X-ray visioning system is being integrated into an automated cutting and processing system at CRF Colac through our **R&D partnership** program to improve yields and reduce costs. **Page 38**

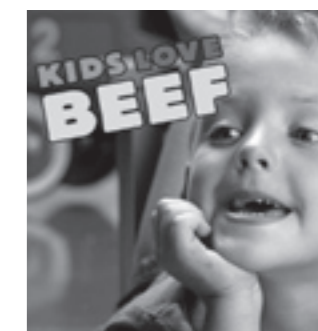
INCREASE INDUSTRY CAPACITY

There are over 112,000 fully accredited producers in **Livestock Production Assurance**. **Page 27**

The **Best practice castration, branding and dehorning guide** was published with input from RSPCA, the Australian Government and industry – 1,900 copies distributed in first week of release. **Page 39**

Our **Red Meat Industry Professional Development** program to enhance innovation culture and capability attracted 29 undergraduates and 18 graduates this year. **Page 40**

Ensuring we are a **highly administratively efficient company**, we implemented SAP – our new information technology system. **Page 49**

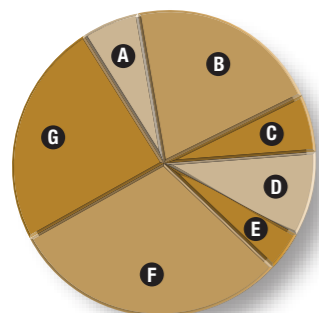


How we work

Working in consultation with industry, we develop and deliver research and development, marketing and market access programs to service the red meat and livestock industry. Our program of work aligns with industry and government goals, and addresses current and emerging issues for industry. All individual staff performance plans can be linked back to industry and/or government goals.

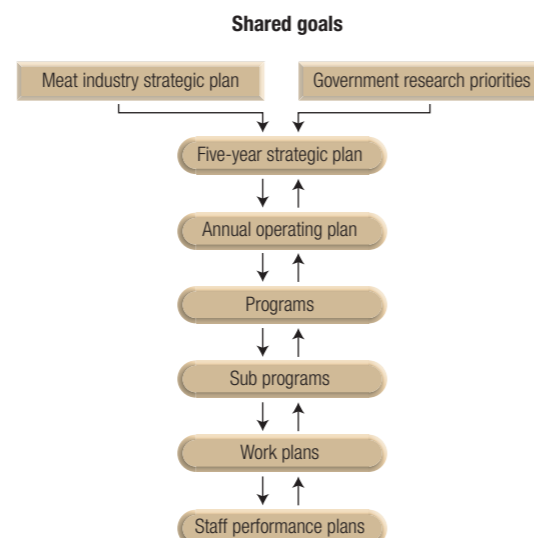
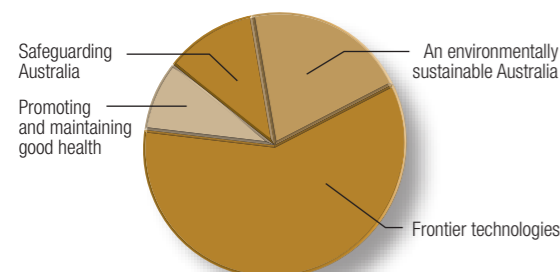
To avoid research duplication and ensure joint approaches to common problems we have teamed up with other research organisations, such as rural research and development corporations, cooperative research centres, state government departments of primary industry, the CSIRO and universities. We have also examined the social and political environment in which the industry will operate during the next five years.

A breakdown of the industry's government-matched R&D investment into the Australian Government rural research priorities for 2006-07 (total \$71.3m)



- A** Protecting Australia from invasive diseases and pests
- B** Sustainable natural resource management
- C** Improving competitiveness through a whole of industry approach
- D** Maintaining and improving confidence in the integrity of Australian agricultural, food, fish and forestry products
- E** Improved trade and market access
- F** Use of frontier technologies
- G** Creating an innovative culture

A breakdown of the industry's government-matched R&D investment into the Australian Government rural research priorities for 2006-07 (total \$71.3m)



| RURAL RESEARCH PRIORITIES | MLA PROGRAM ACTIVITY | PAGE |
|---|--|------|
| Sustainable natural resource management | • Environment – resource management | 30 |
| | • Meat safety/issues management - LPA QA environment module | 26 |
| | • Co-products - biodiesel | 24 |
| Improving competitiveness through a whole of industry approach | • Meat Standards Australia | 28 |
| | • Red meat innovation | 23 |
| | • Improving productivity | 35 |
| | • Supply chain initiatives | 41 |
| | • Co-products | 24 |
| | • Market information | 42 |
| Maintaining and improving confidence in the integrity of Australian agriculture and promoting good health | • Meat safety/issues management - NLIS cow catcher II | 26 |
| | • Domestic trade and promotion - nutrition – RMIT Teenage anti-acne diet and the CSIRO Total Wellbeing Diet Book 2 | 17 |
| | • Animal welfare on-farm and livestock exports | 31 |
| Improved trade and market access | • Market access | 22 |
| Use of frontier technologies | • Strategic R&D | 43 |
| | • R&D partnerships | 48 |
| | • X-ray visioning and automation | 38 |
| Creating an innovative culture | • Adoption and capacity | 39 |
| Protecting Australia from invasive diseases and pests | • Meat safety/issues management - LPA communication | 27 |
| | • Improving productivity - animal health research | 35 |

What we do

GROW DEMAND

We promote the quality, safety and nutritional value of Australian red meat both domestically and internationally.

INCREASE MARKET ACCESS

We work with industry and government to protect and increase our access to markets, providing the market intelligence and analysis that supports Australia's position in trade negotiations.

DEVELOP COMPETITIVENESS AND SUSTAINABILITY

We conduct R&D throughout the red meat supply chain to develop a competitive advantage for the industry.

INCREASE INDUSTRY CAPACITY

Working with industry we deliver programs to extend the results of our work to industry, creating opportunities for a profitable and sustainable red meat industry.

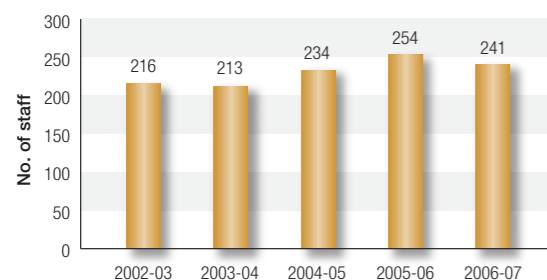
who benefits from our work?

Every aspect of our work is geared to providing economic benefits for Australia's red meat and livestock industry, however much of our work has direct and indirect environmental and social benefits.

| INDUSTRY – PRODUCERS, PROCESSORS, EXPORTERS, TRADE | ECO | ENV | SOCIAL |
|--|-----|-----|--------|
| • We provide science-based and management solutions to help improve the productivity and sustainability of enterprises | • | • | • |
| • We investigate new and innovative options to gain maximum use of the carcass and identify new, untapped markets | • | • | • |
| • We promote red meat and build relationships to support our products | • | | • |
| • We work to maintain and increase market access | • | | • |
| • We collect, analyse and disseminate market information that supports business decisions | • | | • |
| • We work with the industry, locally and in overseas markets, to improve animal welfare | • | | • |
| CONSUMERS | | | |
| • We undertake science-based research and provide information on red meat's health and nutritional value | • | | • |
| • We develop innovative red meat meal solutions and packaging to meet changing consumer trends | • | | • |
| • We conduct scientific research, provide information and support management practices to promote food safety through the whole supply chain | • | | • |
| COMMUNITY | | | |
| • We invest in the development of world-class scientists and researchers to build Australia's research and development capabilities | • | • | • |
| • We foster growth in the value of the Australian red meat and livestock industry, now valued at \$15 billion | • | | • |
| • We support Australia's red meat and livestock industry, which provides economic stimulation in rural, regional and metropolitan Australia | • | | • |
| • We support and advise government in trade negotiations and provide the economic rationale used in negotiations | • | | • |
| • We undertake programs to address issues of community concern | | • | • |

Our staff

The quality and competency of our people is paramount to MLA achieving its objectives. We endeavour to attract and retain the highest calibre staff to deliver services and solutions to the red meat industry. We have policies to ensure a fair and safe workplace that supports staff development and further education.



Here is a summary of staff statistics:

- 241 staff globally
- 179 permanent employees based in Australia
- 32 permanent employees based overseas
- 30 fixed term employees
- 55% male, 45% female
- 66% of employees have a rural background (defined as holding tertiary qualifications, affiliation through family, or previous employment in the agriculture industry)
- For the fifth consecutive year we were recognised as an Employer of Choice for Women
- 97% of employees hold tertiary level qualifications.



where we're located

Our staff is based strategically to leverage the best possible access to both stakeholders and markets.



THE EXPERIENCE OF OUR EXECUTIVE TEAM

Peter Barnard PhD Econ

General manager, international marketing and economic services. Peter is well-respected within the agribusiness sector and government. He has many years of experience in agricultural economics and is an active behind the scenes player in international market access.

Allan Bloxson

General manager, industry systems.

Allan has 38 years industry experience in the red meat industry having worked in, or with, various sectors of the supply chain. He is responsible for the industry systems that provide the foundation for differentiating Australia's 'clean and natural' red meat products both at home and in the international arena.

Scott Hansen B Rur Sc, Grad Cert Comm

General manager, corporate communications and livestock exports.

After growing up on a Queensland property, Scott's career has kept him close to his rural origins. His previous roles as executive director of the Victorian Farmers Federation and of the Sheepmeat Council of Australia, give him an ideal perspective on both producer and industry interests.

Ian Johnsson B Rur Sc, PhD

General manager, livestock production innovation.

Ian joined MLA in January 2007, bringing with him over 30 years agricultural research experience. His hands-on research experience in the livestock arena in combination with his senior management roles with MLA's predecessor organisations and more recently with Australian Pork Limited, put him in good stead to oversee and develop the on-farm research portfolio for the red meat and livestock industry.

Christine Pitt DBA MHA BSc MAICD

General manager, client and innovation services.

Christine held a number of senior positions in retail, manufacturing and financial services companies before joining MLA. This put her in good stead to oversee our extensive off-farm R&D and client innovation services activities. Christine is also responsible for the MLA donor company.

Laurie Robinson CPA

General manager, corporate services.

Laurie joined MLA in October 2006, bringing with him extensive experience in financial and corporate management. Previously he worked as finance director in a publicly listed photography company and in the oil industry, both in Australia and overseas, before joining Dairy Farmers as chief financial officer, and recently as their senior adviser.

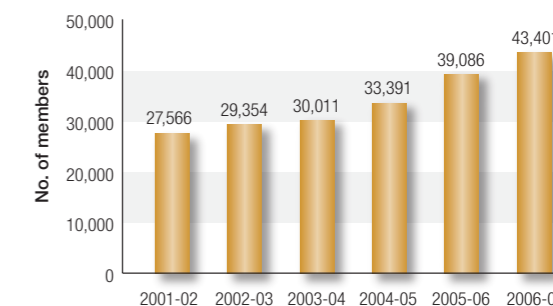
David Thomason BBus

General manager, marketing.

David's extensive experience in consumer marketing was gained with iconic food brands such as Cottee's and Tip Top. He champions consumer-focused marketing with emphasis on quality improvement, nutrition, product development and impactful promotion, all of which underpin MLA's reputation for marketing excellence.

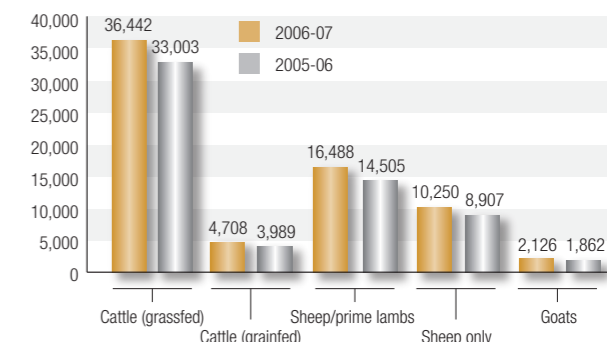
Our members

This year we achieved a significant increase in the number of members resulting from a concentrated effort to boost our level of engagement with livestock producers. As a result, membership increased 11% this year to reach 43,401 – up 42% over the last five years.



MEMBERS BY ACTIVITY

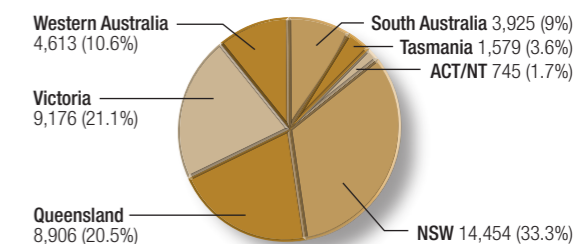
The main increase in membership has come from the cattle sector. The number of members with grassfed enterprises increased 18% this year, driven predominantly by the benefits offered from the More Beef from Pastures program (see page 36).



MEMBERS BY LOCATION

The percentage of members by location has remained relatively stable compared to last year.

The size of holdings varies significantly from state to state based on production systems. The figure below shows a state breakdown of members.



How we evaluate our work

Performance evaluation is critical for us to demonstrate our delivery of world-class services and solutions in partnership with the red meat industry and government.

On top of measuring our performance on an annual basis through key performance indicators in our annual operating plan, we added another level of evaluation to our work.

To ensure our programs and activities are delivering value to our stakeholders we invested in the development of an independent evaluation framework this year. The framework, developed by the Centre for International Economics, enables an objective assessment of program outcomes against our strategic imperatives – to build demand, increase market access, develop competitive advantage and build industry capability. The framework also reports on alignment of our programs with the Australian Government's Rural Research and Development Priorities.

Independent evaluation of programs across our portfolio of work began this year with a focus on food safety, eating quality and market access.

| MLA PROGRAM | PROMISE | PROGRESS | PERFORMANCE |
|---------------------------------------|--|---|---|
| Eating quality for beef and sheepmeat | Higher demand and competitive advantage. | Program outputs have been widely adopted by the Australian industry. | A \$223 million investment is expected to return a net industry benefit of \$1.1 billion discounted over 30 years: a benefit-cost ratio of 5:1 based on net present value. |
| Food safety: Predictive microbiology | Safer products, lower compliance costs, competitive advantage, improved market access. | Program outputs have been widely adopted by the Australian export processors and industry regulatory bodies. | A \$4 million investment is expected to return an industry value-added benefit of \$44.4 million over 30 years: a benefit-cost ratio of 11:1 based on net present value. |
| Market access | Defend existing market access rights and remove barriers to export of Australian red meat and livestock. Complete trade liberalisation would increase the value of the Australian red meat trade by an estimated \$5.5 billion over the next 15 years. | Exports account for about 60% of total sheepmeat production and almost 70% of total beef production – a steady increase of 20% for sheepmeat and 10% for beef since 1990. | The \$50.5 million invested by MLA will result in a net benefit of \$366 million accruing over 23 years from 1998: a benefit-cost ratio of 8:1 in net present value terms and an internal return rate of 39%. |

Source: CIE Reports



Our markets

CATTLE PRICES AND PRODUCER INCOMES

Cattle prices fell in 2006-07 from the record set in 2005-06, because of the rise in the A\$, sluggish export demand and the continuation of the drought. Despite this, prices have increased substantially over the past decade, even after adjusting for inflation. This trend has been driven by strong demand for beef in Australia and overseas and disease-related trade restrictions that affected our main competitors. As a result, average beef producer incomes have been historically high in recent years, despite the drought. However, incomes are estimated to have fallen considerably in 2006-07, to \$34,910 per farm (ABARE), because of poor seasonal conditions, higher fodder costs and lower saleyard prices.

DOMESTIC BEEF DEMAND

Estimated Australian consumer expenditure on beef grew by a further \$217 million, or 3.4% in 2006-07, to \$6.6 billion, bringing the jump since 2000-01 to 53%. This has been associated with strong consumer spending, a lift in the quality of beef, improved presentation, marketing and promotion and more positive nutritional and dietary attitudes to red meat.

BEEF EXPORTS

The value of beef exports increased 8% in 2006-07, to a record \$4.9 billion. Export revenue has risen 131% over the past decade. Almost half of this came from sales to Japan (\$2.2 billion). The value of beef exports to Japan and Korea has jumped by 53% and 158%, respectively, since the US BSE outbreak in December 2003.

LAMB PRODUCER PRICES AND INCOMES

Rising lamb supplies has seen the average price of lambs fall by around 7% since the records in 2003-04, but they remain historically high. The buoyant market has been driven by strong growth in demand for lamb in Australia and a host of overseas markets, led by the US and Japan.

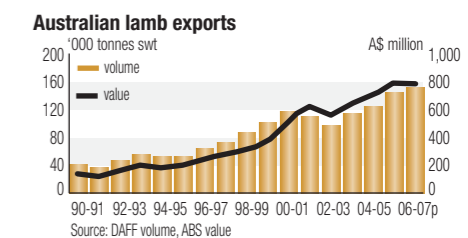
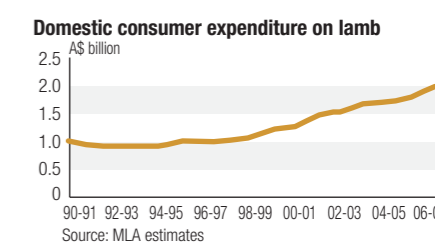
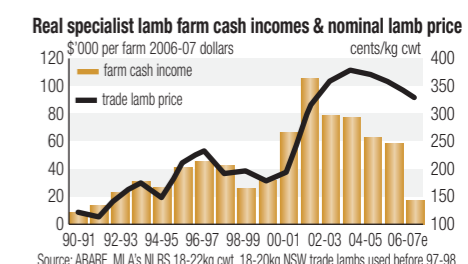
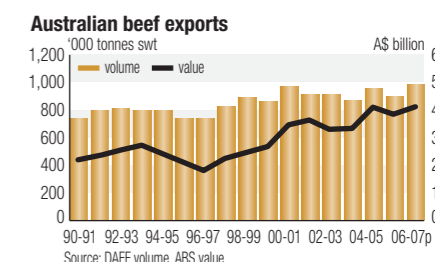
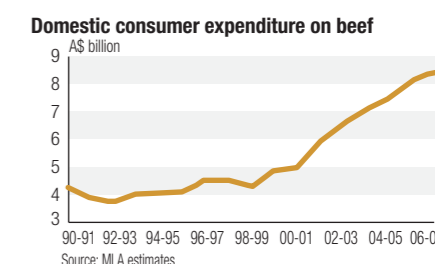
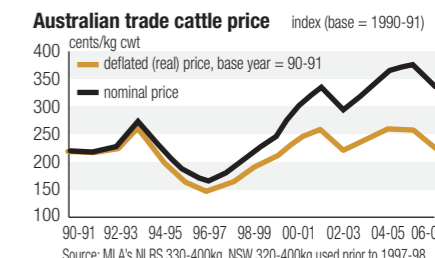
While farm cash incomes to specialist prime lamb producers have been historically high, the ongoing drought has seen a significant decline over the past two years to \$17,800 per farm (ABARE). Those producers not in drought have been able to maintain incomes, with the top 25% of lamb specialists having an estimated farm income of \$87,338 in 2006-07.

EXPENDITURE ON LAMB

Better lamb quality, improved product presentation, strong promotion, a general lift in the health image of red meats and a strong economy, have all combined to raise Australian consumer interest in lamb. Expenditure on lamb is estimated to have doubled over the past decade, including a further 12% rise in 2006-07, to almost \$2 billion in 2006-07.

LAMB EXPORTS

The value of lamb exports eased slightly in 2006-07, to \$779 million (ABS data), despite volumes rising 4.8% to 150,243 tonnes (DAFF data). Lamb export value has increased by over 200% in the past decade and volume almost 140%. Global demand for Australian lamb remains strong, with tight global supplies lifting the need for lamb in a wide range of markets. The value of Australian exports eased to the major markets of Japan (down 31% to \$64 million) and the US (down 1% to \$309 million).



5 years at a glance

| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--|---------|---------|---------|---------|---------|
|--|---------|---------|---------|---------|---------|

INDUSTRY

| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--------------------------------------|-----------|-----------|-----------|-----------|------------------|
| Industry value | \$13.17bn | \$13.42bn | \$14.69bn | \$15.00bn | \$15.90bn |
| Consumer expenditure beef (domestic) | \$5.37bn | \$5.74bn | \$6.00bn | \$6.39bn | \$6.61bn |
| Consumer expenditure lamb (domestic) | \$1.54bn | \$1.67bn | \$1.70bn | \$1.78bn | \$1.99bn |
| Value of beef (export) | \$3.91bn | \$3.93bn | \$4.88bn | \$4.54bn | \$4.90bn |
| Value of lamb (export) | \$553.8m | \$636.5m | \$700.5m | \$782.0m | \$779.0m |
| Value of goatmeat (exports) | \$46.9m | \$49.2m | \$70.6m | \$82.2m | \$77.0m |
| Value of live cattle exports | \$607.5m | \$461.2m | \$464.0m | \$403.9m | \$496.9m |
| Value of live sheep exports | \$415.3m | \$268.2m | \$210.2m | \$297.1m | \$289.6m |

MEAT & LIVESTOCK AUSTRALIA

| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|-----------------------------|----------|----------|----------|----------|-----------------|
| Revenue total | \$123.6m | \$136.5m | \$140.2m | \$154.6m | \$161.8m |
| Levies income | \$69.2m | \$71.4m | \$72.2m | \$82.0m | \$98.2m |
| Government contributions | \$30.9m | \$34.9m | \$40.0m | \$41.8m | \$35.7m |
| Live exporter contributions | \$1.2m | \$1.4m | \$1.1m | \$1.2m | \$1.1m |
| Processor contributions | \$12m | \$10.3m | \$11.9m | \$11.6m | \$11.1m |
| Expenditure total | \$117.1m | \$130.5m | \$139.7m | \$158.6m | \$159.5m |
| R&D | \$53.1m | \$65.4m | \$78.0m | \$80.6m | \$71.3m |
| Marketing | \$64.0m | \$65.0m | \$61.7m | \$78.0m | \$88.2m |
| Corporate services | \$7.6m | \$7.3m | \$7.7m | \$8.7m | \$8.7m |
| Surplus (current year) | \$6.5m | \$6.1m | \$0.5m | -\$4.0m | \$2.2m |
| Surplus (retained) | \$27.3m | \$33.4m | \$33.9m | \$29.9m | \$32.1m |
| Staff | 216 | 213 | 234 | 254 | 241 |
| Membership | 29,354 | 30,011 | 33,391 | 39,086 | 43,401 |

Source: MLA, ABS, ABARE, DAFF

Our financial position

REVENUE

Total revenue for 2006-07 was \$161.8 million, an increase of 4.6% on 2005-06 (\$154.6 million). The largest increase came as a result of a full year impact of the increased cattle transaction levy from \$3.50 to \$5.00 (MLA's portion \$4.58), which was effective from 1 February 2006. The impact of the drought saw increased slaughter rates which also impacted on the additional cattle transaction levies.

| | 2006-07 \$'000 | 2005-06 \$'000 |
|---|-------------------|-------------------|
| Revenues from ordinary activities | 161,766 | 154,560 |
| Expenditure | | |
| Markets and consumers | 64,736 | 55,632 |
| Product initiatives | 17,381 | 19,012 |
| Community concerns | 13,008 | 11,022 |
| Whole of chain efficiency | 31,401 | 33,930 |
| R&D partnerships | 11,372 | 13,295 |
| Strategic R&D | 8,730 | 11,352 |
| Corporate services | 8,713 | 8,691 |
| Other | 4,192 | 5,654 |
| Total expenditure | 159,533 | 158,588 |
| Net surplus/(deficit) from ordinary activities | 2,233 | (4,028) |

EXPENDITURE

Total expenditure for 2006-07 was \$159.5 million which represented an increase of 0.6% on 2005-06 (\$158.6 million). The increase resulted mainly from additional domestic and international marketing activities which were funded by the increase in cattle transaction levy.

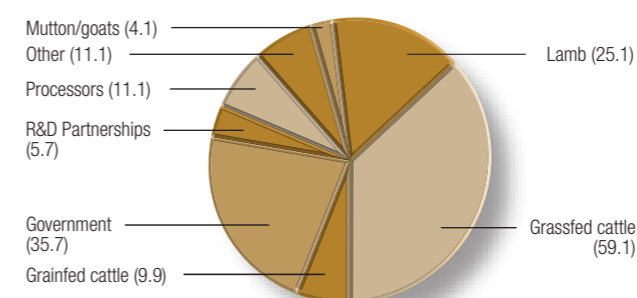
RETAINED SURPLUS

An excess of revenue over expenditure during the year delivered a surplus of \$2.2m, compared to a deficit of \$4.0 million in 2005-06. The retained surplus as at 30 June 2007 was \$32.1 million, compared to \$29.9 million last year. This surplus is broken down by species as follows:

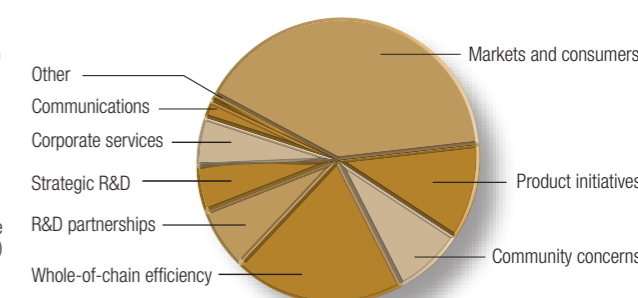
| | |
|------------------------|----------------|
| Grassfed cattle | \$15.2m |
| Grainfed cattle | \$5.5m |
| Lamb | \$9.4m |
| Sheep | \$1.3m |
| Goats | \$0.7m |

More detailed information can be found in the Financial Report on page 59.

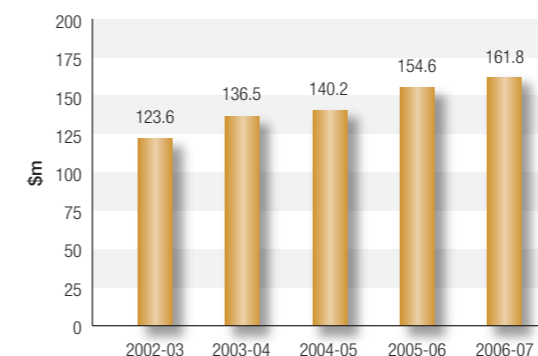
Revenue over 2006-07 (\$m)



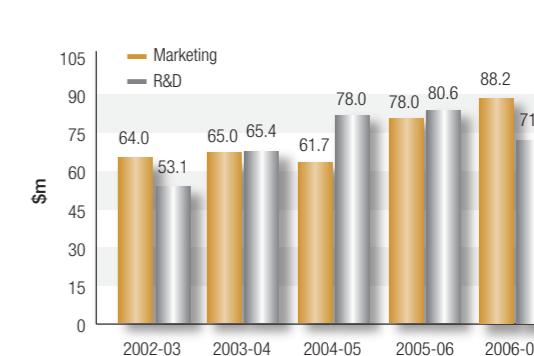
Expenditure 2006-07



Revenue over five years



Expenditure over five years



Chairman's report

The diversity of Australia's red meat and livestock industry means we can cater to just about every market segment around the world, from wet markets in Indonesia to seven-star restaurants in Dubai.

Our success in delivering products to meet consumer requirements has continued to build this year, despite environmental and trading challenges. Beef sales at home and around the globe increased 5% to \$11.5 billion; lamb and mutton is now valued at \$3.6 billion – up 9% on last year's total; and the value of our livestock export trade has grown 10% over the last 12 months to contribute \$769 million to the total value of the industry.

Our ability to sustain this growth going forward hinges on our ability to identify, predict and meet the evolving expectations of the community, consumers and the industry itself.

MLA's role is to ensure the industry has the tools and information required to meet these challenges, maintain its enviable reputation and continue to push the frontiers of the marketplace.

COMMUNITY

The vision and foresight of the Australian red meat and livestock industry to consistently and collaboratively overcome relentless challenges has led to our strong position as a reputable supplier.

Challenges like brucellosis and tuberculosis in the 1970s, food safety scares in the late 80s, and BSE and FMD outbreaks overseas in the past decade have all had the potential to erode the value of our industry. Waning consumer confidence in our product is the ultimate threat to the success of our industry, and we have effectively met and overcome these challenges through a united industry approach. Some of the tools and systems our industry has developed and implemented to pass these tests, such as the brucellosis and tuberculosis eradication campaign (BTEC), national vendor declarations and more recently the National Livestock Identification System (NLIS) and Livestock Production Assurance (LPA), have been challenges in themselves. They have been fundamental, however, to our industry's \$15.9 billion success.

Community expectations are shaping the challenges we face today. Good corporate citizenship, land stewardship and the responsible treatment of animals are high on both community and government agendas.

We must respond to these signals as a unified industry by implementing best practice standards on farm, and actively communicating our achievements to build the community's trust in our systems, our practices and our products.

Applying best practice standards in all areas of our business strengthens our reputation, positions us as a market leader in the ethical production of food and paves the way for a solid and successful industry for the next generation of producers.

CUSTOMERS

Markets

This year, challenges on both the supply and demand sides of our business – with the persistence of drought and a slow down in export demand in the later part of the year – were exacerbated by a rapid rise in the Australian dollar.

In spite of these challenges, we achieved an 8% increase in beef exports to reach a record \$4.9 billion, with almost half of this coming from sales to Japan (\$2.1 billion).

The re-entry of US beef to the Japanese and Korean markets has been much slower than expected, giving our industry the opportunity to further cement the loyalties and market share we secured in the absence of a major competitor.

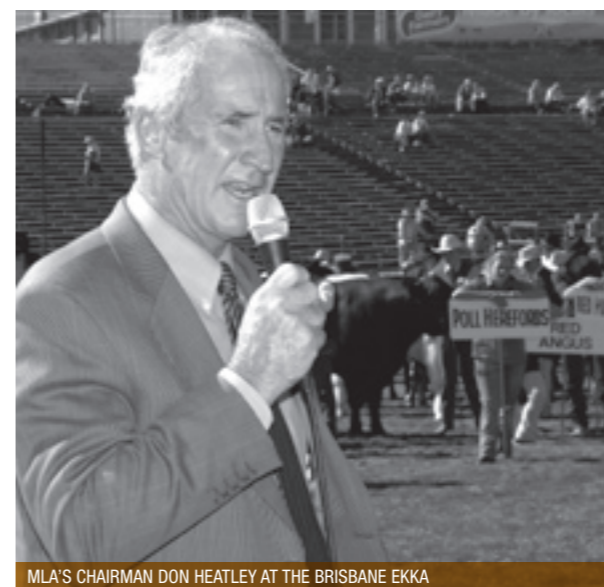
With the A\$ expected to remain high and fierce US competition in North Asian markets restored, along with the anticipated start of a US–Korea free trade agreement, demand from these high value markets is expected to slow.

In contrast, Australian beef exports to the US and South Asian markets are set to begin a recovery, after five years of declining trade. This recovery, particularly in Asia, will depend, in part, on our ability to meet and anticipate consumer needs, differentiate our product against low cost competitors and boost our profile in these markets.

The value of our lamb exports dropped slightly to \$779 million this year, despite volumes rising nearly 5%. In addition, an apparent end to the recent craze for Genghis Khan restaurants in Japan, which had seen a short-term surge (59% increase in Australian exports in 2005-06) in demand for lamb, led to a 31% fall in exports of lamb to Japan this year. However, this short-term 'fad' opened the doors to potential growth in the retail lamb trade, which we are working to capitalise on through our marketing activities in this sector.

The markets for lamb are numerous and most are expanding, with Australia and perhaps China the only suppliers capable of substantially raising export volumes. We must continue to differentiate our product as clean, safe and of consistently high quality to ensure we make the most of this opportunity. Improved product presentation and marketing, a general lift in the health image of red meat, and a strong economy, have all contributed to a rise in Australian consumer interest in beef and lamb. Domestic beef consumption increased, with national expenditure jumping to a record \$6.6 billion, while lamb sales hit almost \$2 billion in 2006-07.

Over the long term, demand for Australian red meat looks set to grow, with expanding world economies and populations and rising demand for beef in Asia and for lamb in Muslim and Hispanic populations. On the supply side, our competitors' limited land and feed availability should see restrained growth in global meat supplies, giving Australia a natural long-term advantage.



MLA'S CHAIRMAN DON HEATLEY AT THE BRISBANE EKKA

Access

Trading with a diverse set of markets is fundamental to our industry's success. We supply a wide range of red meat and livestock products to over 100 markets around the globe. Our continued access to these markets and ambitions to expand our market base is a top priority.

2006-07 was a solid year for negotiations to secure and improve trade flows for the industry via free trade agreements and resolutions to trading barriers, such as the agreements to re-open the door for livestock exports to Libya.

The lack of progress in achieving outcomes from the World Trade Organization Doha Round is seeing Australia, and our competitors, look to bi-lateral trade arrangements. The US and Korea are expected to ratify a free trade agreement which will adversely impact on Australia's exports over the medium to long term unless we are granted similar access. MLA is working with our industry partners to ensure the position and priorities of red meat and livestock remain on government negotiating tables.

Consumers

There are some fundamental shifts occurring among consumers in developed nations. Triggered by the obesity crisis, concerns about personal health and wellbeing are seeing consumers opt for freshly made meal options. This is driving a renewal of cooking skills and a gradual return to specialist food retailers, particularly butchers and produce stores who now have a third of the market. This move back to fresh food is good news for the red meat industry and a timely reminder that we must continue to position red meat as a healthy and easy option for the family dinner table.

Developed countries are ageing. Australia's aged population increased nearly 1% over the last five years and is expected to make up more than 25% of the national community by 2045. Typically, as consumers age, they eat less red meat. In Australia, average consumption is just on 29kg of beef a year for older people – considerably less than the national average of 36.3kg. Understanding and addressing age-specific impediments to eating red meat is essential to maintain our market share in developed countries.

INDUSTRY

The difficulties of the drought and the unexpected rise in the A\$ put significant pressure on the industry over the last 12 months. This is set to intensify, the drought continues for much of the country and grain prices are continuing to rise, leading to an irrevocable change in the cost of producing red meat in Australia.

We cannot compete on price, we cannot operate as a commodity trade and so we now face one of our biggest challenges yet – consumers around the world paying more for red meat.

Coupled with this, the US resumption of its normal trade with our largest overseas markets – Japan and Korea, means we must manage the expectations of our customers and continue to aggressively differentiate our product.

Our resilience will be tested. We need to harness the knowledge learned from generations of experience and created by R&D, and put it into practice to overcome these challenges.

This new order in the global arena challenges our industry to step up its efforts to be more responsive to customer requirements and community expectations, and to use the opportunity to take the lead in forging new market frontiers.

It is also a stark reminder that our solid reputation must be protected at all costs with unerring trust from our customers in our standards and systems, such as NLIS, LPA and NVDs, to deliver safe, healthy red meat products.

The environment we operate in is challenging and it is changing.

Our industry's history of turning seemingly insurmountable challenges into opportunities has paved the way to our current fortunes. Our continued efforts to do everything at our disposal to not just meet but exceed customer requirements and community expectations will see us forge new frontiers in the complex economic, social and environmental trading arena that is the global red meat and livestock industry.

Don Heatley
Chairman

Managing director's report

The success of Australia's red meat and livestock industry lies in its ability to weather storms and charter new waters in our global trading environment.

This year industry faced challenges from drought, a high A\$ and the resumption of US trade to North Asia, however its robust systems helped steer a course through these rough seas and continued to achieve solid demand and good prices for its products. The resilience of industry to meet these continued challenges is outstanding.

MLA continued to deliver the best possible services and solutions to industry this year, partnering with all sectors of the red meat supply chain to grow demand, increase competitiveness and sustainability, improve market access and build the capability of our industry to navigate this turbulent environment.

GROWING DEMAND

Bolstered by the increased cattle transaction levy, we endeavoured to reinforce the positive attributes of Australian red meat and livestock to our global customers with a package of activities designed to motivate increased purchasing, stem resistance to consumption and open new avenues to expand our consumer base.

In foreign markets, the value of beef exports increased 8%, to a record \$4.9 billion, in 2006-07. The value of lamb exports eased slightly by 0.3% to \$779 million, despite volumes rising 4.8%. This dip mostly resulted from a 1% drop in export values to the US.

The re-entry of US beef to North Asia is yet to reveal its true impact on our industry, with Australian beef exports up 4% in Japan and 29% in Korea. Our efforts this year have been in consolidating Australian products as the safe and healthy choice in these markets with a new nutrition program for Japanese school children and a push in online marketing to internet-savvy Koreans.

On the domestic front, our first foray into beef-specific promotions had a fairly lacklustre beginning. Though the point-of-sale material encouraging customers to 'Bring out the Beef' achieved widespread popularity, the response to the accompanying television commercial was disappointing. We re-launched the campaign with a new angle – 'Kids love Beef' – and saw servings of beef meals increase by nearly one million a week during the duration of the campaign. This contributed to the \$217 million growth in Australian consumer expenditure on beef this year.

Our lamb marketing campaigns – Sam Kekovich for Australia Day and 'Lâmb' for spring – again dominated the headlines, and more importantly helped to drive sales a further 12% to reach nearly \$2 billion this year.

While catchy marketing campaigns undoubtedly influence consumer purchasing, we must not underestimate the increasing impact on consumption of such community concerns as animal welfare, the environment and individual and family health.

Our 'Foundation Food' campaign with actor Sam Neill, the RMIT anti-acne diet for teenagers and the launch of the CSIRO

Total Wellbeing Diet Book 2 are all helping to reinforce the health benefits of red meat in the diet and reduce resistance to consumption.

We have undertaken rigorous research that empirically supports our national transport code of practice and we are in train for gaining accurate scientific measurements of the impact of red meat production on the environment. Supporting this scientific rigour we are delivering tools such as the Environmental best practice guidelines for the red meat processing industry (launched in May by Minister McGauran), to help industry demonstrate its credentials to the community.

MARKET ACCESS

Rights of passage for Australian red meat and livestock to world markets must be vigorously defended with sound and sensible economic principles. Lack of progress in the World Trade Organization Doha Round this year meant we focused on consolidating our position with the Australian Government in bilateral free trade negotiations with Japan, China and Korea.

The massive effort undertaken by industry and MLA to implement and roll out the National Livestock Identification System (NLIS) to meet government legislation last year has paid off. The NLIS database successfully tracked 300 cattle and their cohorts over a 48-hour period in a simulated disease outbreak in May this year. The system proved its reliability in performing under pressure and shored up confidence that it can deliver outcomes that meet Australian government and industry requirements.

INCREASING COMPETITIVENESS AND SUSTAINABILITY

The Australian industry operates in a fiercely competitive environment – we are buffeted by low-cost competitors, adverse environmental conditions and increased scrutiny from the community. Our portfolio of research and development programs provides tools and systems to enable individual enterprises to remain viable and compete in this challenging marketplace.

A major difficulty for the industry is its ability to retain and attract staff. We are working to understand and identify how to cost-effectively manage people on pastoral properties and guide investment in labour retention strategies. We are also investing in technologies to reduce labour requirements with remote property monitoring systems that decrease the need for physical inspection and maintenance of property infrastructure. Robotic technologies are also providing opportunities to reduce reliance on staff and increase savings in processing facilities.

Continued genetic improvement in the sheep industry remains a high priority. MLA's and AWI's SheepGenomics program laid the foundations for the release of 60,000 gene markers using next generation DNA marker technology – SNP chips.

Accelerated genetic improvement is also a strong focus for our beef program, with over 100 potential markers identified this year. In addition, new BREEDPLAN estimated breeding values are on the way as a result of our funding of research into the factors affecting maternal herd efficiency.



BUILDING INDUSTRY CAPABILITY

The long-term viability of our industry depends on our ability to nurture future industry leaders and allow individual enterprises to remain empowered and independent.

In collaboration with industry and Government partners, over 30,000 Tips & Tools publications were distributed to producers, covering issues such as management of pastures during drought, weeds, groundcover, soils and internal parasites. This year over 17,500 producers attended MLA-funded learning activities and events such as Cost of Production workshops, Beef-up forums, Meat Profit Days, EDGENetwork workshops and Grain & Graze and Evergraze regional activities.

Our role in the collection, analysis and dissemination of market information had a broader reach this year, providing a larger sector of industry with tools to support business decisions. Subscribers to the ever-expanding online market news service more than doubled to over 3,500, and partnerships with the Rural Press network ensured this valuable information was readily accessible. While the MLA/SFE Cattle Futures Contract offers to mitigate business risks, trading was again disappointing this year with just 1,700 completed trades. We are continuing however to develop alternative simple and effective risk management tools.

MEASURING PERFORMANCE

To ensure we meet the objectives of our programs and deliver real benefit to industry, we have undertaken an independent evaluation of our work. Based on a framework developed by the Centre for International Economics, three of our programs have been assessed so far. The outcomes illustrate the benefits of industry's investment through MLA being 8:1 for market access, 11:1 for food safety and 5:1 for eating quality. Another three programs will be assessed next year and so on, until we have solid data to demonstrate the cost-benefit of all components of our investment in industry.

THE BUDGET

After a deficit of \$4.0 million last year, 2006-07 saw the company record a surplus of \$2.2 million. A number of savings were achieved across the business that allowed for this result after an initial projection of a budget deficit of \$4.7 million at the beginning of 2006-07.

Revenues totalled \$161.8 million for the year, compared with \$154.6 million for 2004-05 – an increase of \$7.2 million. Levies revenue was up by \$16.2 million, largely due to the full year impact of the increased levy endorsed by industry, and the growth in slaughter rates caused by the drought.

OUR PEOPLE

The success of our programs is a direct result of the professionalism, enthusiasm and commitment of our people. I would like to take this opportunity to acknowledge the dedication that drives MLA staff and our many collaborators to make our industry a world leader in every aspect. Their efforts through 2006-07 are reflected throughout the pages that follow.

ON THE HORIZON

A clear direction for MLA's future is mapped out in the *MLA strategic plan 2007-2011* which outlines the steps the company will take to meet its four strategic imperatives – increasing market access, growing demand, enhancing competitiveness and sustainability and increasing industry capability. The five year plan will be reviewed annually to ensure it remains contemporary and reflects current industry needs.

The mettle of industry will continue to be tested next year and our programs are positioned to support it for success. Some of the activities we will undertake next year include strategic marketing at home and overseas; robust scientific research that demonstrates the true nutritional value of red meat and the industry's environmental credibility; active and persistent representation of industry priorities for trade reform; delivery of even more advanced animal genetic information; and a targeted campaign to attract skilled employees to the industry.

We continue to value the advice and direction from our stakeholders, particularly industry peak councils and the Australian and state governments. These important partnerships are fundamental to MLA's ability to deliver effective services and solutions to our industry.

David Palmer
Managing director

REVIEW OF OPERATIONS

01 Markets and consumers



MLA'S EXECUTIVE TEAM

(LEFT TO RIGHT) ALLAN BLOXSOM (INDUSTRY SYSTEMS), DAVID THOMASON (MARKETING), LAURIE ROBINSON (CORPORATE SERVICES), DAVID PALMER (MANAGING DIRECTOR), IAN JOHNSSON (LIVESTOCK PRODUCTION INNOVATION), CHRISTINE PITT (CLIENT INNOVATION SERVICES), SCOTT HANSEN (CORPORATE COMMUNICATIONS AND LIVESTOCK EXPORTS) AND PETER BARNARD (INTERNATIONAL MARKETS AND ECONOMIC SERVICES).



“Innovation has become a major factor to successfully compete in today’s global marketplace. A focus on innovation in all stages of the production chain including retail and consumer relationship programs will contribute positively towards Australia maintaining our leading position in the red meat markets throughout the world.”

Lachie Hart – Stockyard Beef, Brisbane, Queensland

MARKETS AND CONSUMERS

- DOMESTIC TRADE AND CONSUMER PROMOTION • EXPORT TRADE AND CONSUMER PROMOTION • TRADE DEVELOPMENT - LIVESTOCK EXPORTS
- MARKET ACCESS • RED MEAT INNOVATION • CO-PRODUCTS

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1 Domestic trade and consumer promotion

INVESTMENT



Domestic consumer expenditure on red meat (beef, lamb and mutton) grew by \$480 million¹ in 2006-07 – a pleasing result with benefits that flow throughout the red meat industry.

KIDS LOVE BEEF

In October last year, MLA launched an advertising campaign aimed specifically at increasing domestic demand for beef – the first in seven years and a direct result of the increased cattle transaction levy. Consumer response to the retail activity in the ‘Bring out the beef’ campaign was positive, however research indicated the TV commercial was not achieving our goals. We quickly revised this component of the campaign and relaunched in February 2007 with the ‘Kids love Beef’ TV commercials, supported by a range of popular point-of-sale materials.

Data collected around the ‘Kids love Beef’ campaign showed that sales of beef grew from 39.6 million servings a week prior to campaign launch (January-February 2007) to 40.5 million servings a week post-campaign (April-May 2007).^o

WE LOVE OUR LAMB

Spring 2006 saw the return of the successful ‘Lamb’ commercial, first launched for Mother’s Day 2006. Its cheeky parody on women’s fragrance advertising helped drive lamb servings to 25.6 million serves a week in September-October 2006, up 2 million serves a week from September-October 2005.[§]

The third Australia Day campaign featuring Sam Kekovich again made lamb the talk of the nation. This year’s ‘Vote Lamb’ campaign for the ‘Australia Day Party’ generated additional publicity valued at \$4.9 million. More importantly, the campaign helped drive lamb servings to peak at 27.6 million per week in February – a 15% increase on weekly lamb serves in February 2006.[†]

Due to drought-induced restrictions on lamb supply, there was no TV advertising for this year’s Mother’s Day lamb campaign. Instead, point-of-sale material, shopping centre advertisements, press advertising and PR activities continued

to promote lamb as ‘The perfect gift for Mother’s Day’. While lamb servings during this promotional period were down year-on-year, lamb’s share of household meat purchases remained stable at 19.4% for May compared to last year.

FOUNDATION FOOD

Our nutrition program focuses on promoting the nutritional benefits of red meat as part of a healthy eating plan, and provides a factual and credible defence against adverse health and nutrition reports.

Again boosted by increased funds from the new cattle transaction levy, the ‘Red meat: we were meant to eat it’ promotion continued as part of the wider ‘Red Meat. Feel Good.’ campaign. Actor Sam Neill returned to front TV advertisements reinforcing that it is our innate inclination towards red meat consumption and the nutritional benefits derived from eating red meat. TV advertising in July 2006 was supported by magazine advertising in October and November and a third TV commercial in the series, ‘Meerkats’, was broadcast in February 2007, achieving positive results and assisting in the overall increase in demand for red meat throughout the year.

Ongoing marketing of the nutritional benefits of red meat plays an integral role in shifting attitudes towards red meat and ensuring the viability of the red meat industry. For this reason we invest in a range of research programs into red meat and its role in a healthy diet.

One of these studies led to the development of the ‘Teenage Anti-Acne Diet’. In a world first, research conducted by RMIT University found a low glycaemic-load diet high in red meat and natural, minimally processed foods, helps reduce symptoms of teenage acne.

The ‘Anti-Acne Diet’ was produced and distributed to 600,000 readers of the *Australian Women’s Weekly* and 12,000 healthcare practitioners. It succeeded in putting red meat

| PROGRAM OBJECTIVE | KPIs | OUTCOMES | BENEFITS | FUTURE |
|---|---|---|---|---|
| Grow domestic demand for beef, lamb and mutton | <ul style="list-style-type: none"> Increase domestic consumer expenditure on beef by \$300m and lamb by \$75m Enhance attitudes to beef as mid week meal option and maintain lamb servings Reduce nutritional barriers to red meat consumption | <ul style="list-style-type: none"> Growth in consumer expenditure on beef up \$217m and lamb up by \$214m* for 2006-07 Beef meal frequency increased to 2.2 times per week** Ongoing success of ‘Red Meat. Feel Good.’ campaign – ‘Teenage Anti-Acne Diet’ distributed to healthcare professionals and consumers | <ul style="list-style-type: none"> Growth in returns to all sectors of the red meat supply chain Increased consumer demand for red meat Reduced resistance to red meat consumption/increased profile of nutritional attributes of red meat | <ul style="list-style-type: none"> Continue development of beef and lamb promotional campaigns Ongoing development of ‘Red meat. Feel good.’ campaign Further research into health and nutritional benefits of red meat in a balanced diet |

on the agenda with doctors and consumers as a means of improving skin health and providing excellent nutritional benefits, reinforced by the stamp of approval given to the diet by the Australian College of Dermatologists.

Following the outstanding success of The CSIRO Total Wellbeing Diet, based on research funded by MLA that recommended 200g of lean red meat four times a week as part of a healthy eating plan, The *CSIRO Total Wellbeing Diet Book 2* was launched. The new book mirrored the success of the previous edition, immediately jumping onto the best-seller list and reiterating the importance of red meat in the diet as an essential source of nutrition.

TRADE – CHANGING WITH THE TIMES

In response to growing concerns about food safety and integrity, and sparked apparently by the obesity crisis, mums are reasserting control over their families’ food consumption, limiting snacks and preparing meals from scratch with fresh ingredients’. Further evidence of this trend is the turnaround in market share of specialist food retailers, particularly butchers and produce stores.

These changes make it all the more important for us to ensure red meat is in the mindset of consumers when deciding on their evening meal, and our work in the foodservice and retail sectors aims to do just that.

This year we continued to produce the highly regarded *Chef’s Special* magazine – a quarterly publication designed to inspire thousands of chefs and foodservice professionals to utilise a wider range of red meat products and cuts on their menus. We also ensure red meat has a strong presence at major foodservice trade shows and young chef development programs.

Our Red Meat Networking Club for retail butchers continues to grow, with 1,300 members or around 40% of Australia’s



THE KIDS LOVE BEEF CAMPAIGN SHOWCASES DELICIOUS WINTER MEALS FOR THE WHOLE FAMILY – SHEPHERD’S PIE, ROAST BEEF AND BEEF CASSEROLE. COLOURFUL POSTERS FEATURE KIDS’ ARTWORK OF THEIR FAVOURITE BEEF MEALS.

butchers now involved in activities and initiatives to raise retailing standards.

In a bid to increase carcase utilisation we conducted three butcher workshops to develop new value added concepts. The outcomes of these ‘beef boot camps’ have been successfully trialled in 25 retail outlets and a manual containing the products has been compiled and released through a number of follow-up workshops. We are also partnering with major supermarkets in developing new products to meet the particular opportunities and constraints that apply in this sector.

* Source: data from ABS, ABARE, DAFF
 ** Source: Millward Brown
 o Source: Roy Morgan – Australian Meat Purchasing Data (May 2007)
 § Source: Roy Morgan – Australian Meat Purchasing Data (October 2006)
 † Source: Roy Morgan – Australian Meat Purchasing Data (May 2007)
 † Source: Julie Dang & Associates Research (March 2007)
 † Source: Roy Morgan – Meal habits in Australia (July 2007)



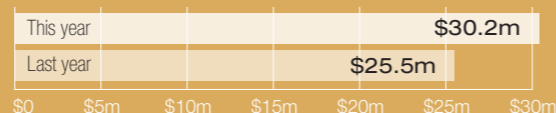
SAM KEKOVICH’S THIRD SUCCESSFUL AUSTRALIA DAY CAMPAIGN APPEARANCE, ALONG WITH ONGOING RETAILER SUPPORT, KEPT LAMB IN DEMAND THIS YEAR



SAM NEILL STARS IN OUR LARGEST MARKETING CAMPAIGN, WHICH HIGHLIGHTS RED MEAT’S NUTRITIOUS VALUE AND OUR PRIMITIVE INSTINCTS TO EAT IT

1 Export trade and consumer promotion

INVESTMENT



Our activities this year, boosted with additional funding from the increased cattle transaction levy, continued to raise awareness of the safe, healthy and delicious attributes of Australian red meat. They helped to achieve a 8% increase in the volume of beef to 973,900 tonnes (valued at A\$4.9 billion) and 5% growth in sheepmeat to 150,200 tonnes (valued at A\$779.2 million) for 2006-07.*

This growth was achieved in the face of a rising A\$, re-entry of other major beef exporters into our key markets and adverse seasonal conditions at home.

MLA conducted several key global initiatives this year, including forging into a new area for red meat marketing via category management trials which have already reduced supply chain costs and are now moving towards new product development. In Japan we conducted a consumer sensory study to support exporters in better targeting their product to meet customer demands.

We actively supported the joint promotion of 92 individual brands of Australian red meat products in our key export markets through industry collaborative agreements (ICAs) leveraging levy funds to amplify marketing efforts.

NORTH AMERICA

Australia exported 302,838 tonnes of beef and 41,388 tonnes of lamb to North America during 2006-07 – a respective growth of 2% and 5% on the previous year.*

New Australian beef and lamb websites including a Spanish version were launched to build confidence in the quality and safety of Australian red meat among consumers and trade. The websites attracted 1.5 million visits over the year, and we further built our online marketing through a series of eight Australian lamb e-newsletters, notifying over 54,000 registered users about new recipes and events.

The 'Easy. Any Day.' advertising campaign was launched to challenge consumers' perception of lamb as merely a 'special occasion' meal, and demonstrate that lamb can be quick and easy to prepare. The campaign consisted of four advertisements placed in a range of food and lifestyle magazines with a combined readership of three million, and the launch of a new consumer recipe book, *Easy. Any Day – Australian lamb for all seasons*.

We conducted profiling research to better understand the US retail and foodservice industries, how meat purchasing decisions are made, as well as identifying retailers, foodservice operators and distributors who are interested in learning more about Australian red meat. The research was used to enhance the North America business development strategy.

Australian beef and lamb also starred in the G'Day USA events held in Los Angeles and New York aimed at promoting all things Australian. These high profile events consisted of three gala dinners and saw Australian chef Neil Perry prepare Australian lamb on the Martha Stewart Show in front of an estimated 2.2 million viewers.

JAPAN

Australian beef continues to perform well in Japan with exports up 4% on last year to 403,172 tonnes* despite the impact of the rising A\$ on the cost of Australian product.

Recognising the challenge from the US positioning its beef to regain market share this year, we ramped up our marketing activities in Japan to reinforce our position in the market, retain our customers and market share.

Synonymous with safe, healthy and delicious, Aussie Beef continues to build its reputation through ads and editorial in popular women's cooking magazines and all five national newspapers.

| PROGRAM OBJECTIVE | KPIs | OUTCOMES | BENEFITS | FUTURE |
|---|---|--|---|---|
| Grow demand for Australian red meat internationally | <ul style="list-style-type: none"> Improve perceptions of Australian beef and lamb internationally Increase exporter and trade participation in ICAs Gain exporter and trade participation in three category management pilots | <ul style="list-style-type: none"> Continued improvements in consumer attitudes about the safety, taste and nutritional value of Australian beef and lamb 75 ICAs with Australian exporters coordinated – an increase of 10 on last year Four exporters participated in category management pilots last year (two exporters in Korea, two in Japan) | <ul style="list-style-type: none"> Increased demand for Australian red meat overseas Increased support for promotion of Australian red meat internationally Ability to better target product to consumer needs | <ul style="list-style-type: none"> Build trade and consumer loyalty to Australian red meat Develop industry capability in export marketing through the international ICA program Expand awareness of the eating quality attribute of Australian red meat |

Combined with an integrated print advertising campaign, retail promotions were developed to increase awareness and sampling of **Australian beef – a key strategy to increase sales** in this market.

Our Father's Day promotion, involving 2,200 major retail outlets and 1,000 regional supermarkets, offered the equivalent of 2,000 days of in-store sampling. And Japanese families responded, serving up 21% more Australian beef during Father's Day week compared with the previous week and increasing Australia's market share from 69% to 74% over the period."

The Aussie Beef school education program, trialled in seven schools around Japan, involved a series of presentations on the safety and nutritional benefits of Australian beef to 1,000 students, parents, teachers and school nutritionists. A children's textbook featuring Australian red meat was developed and distributed to 10,000 school kids. The events received widespread media coverage in local newspapers, child-focused newspapers and magazines.

It was a much more difficult year in Japan for lamb. A slowdown in the growth of Genghis Khan restaurants (Mongolian BBQ), combined with a high level of stocks, led to a decline in chilled imports of lamb in 2006-07. The fall in the yen affected all imports, but particularly lamb, and processors experienced lower market returns for lamb compared to the alternatives.

In an effort to maintain exports of sheepmeat we included lamb as part of our 47 cutting seminars delivered to the Japanese trade. We also incorporated sheepmeat components into nine foodservice missions, along with 550 days of in-store demonstrations nationwide.

KOREA

Australian beef has performed consistently well throughout the year with 156,703 tonnes exported, up 29% on last year.*

Our marketing programs in Korea continued to leverage the *Hoju Chungjung Woo* (Australian beef – clean and safe) brand with an integrated suite of activities.

We worked with retailers to conduct 22,000 days of in-store sampling to stimulate awareness and product trialling; developed new point-of-sale material for 700 butcher stores and hypermarkets; and conducted 30 trade seminars on the safety and versatility of Australian beef for 550 buyers, retailers and chefs.

Culinary competitions – MLA Black Box Culinary Challenge, Pencil Box and Iron Chef – introduced new cuts of Australian beef to 180 chefs and achieved media coverage worth A\$1.9million.

Korea is setting the global pace when it comes to internet use with more than 34 million Koreans (out of 48 million) getting online for an average of 14 hours a week. With this in mind, we boosted our efforts in online marketing with the *Hoju Chungjung Woo* website for consumers and commercial buyers. The informative and interactive site drew 125,000 visitors this year, and over 52,000 signed up as members to regularly receive recipes, information and online competitions and promotions for Australian beef.

The prohibitive expense of media advertising in Korea compels us to look for more creative alternatives, such as this year's train station advertising campaign. Four train stations, through which more than 22 million commuters pass each day, displayed *Hoju Chungjung Woo* ads during the year. The results were outstanding in marketing terms with 50.7% recollection of the ads and 57.5% of these positive among consumers†.

Our success in raising awareness of and trust in the *Hoju Chungjung Woo* brand was again recognised this year, with it being named Korea's leading food brand in the 'Best Brand Awards', judged by a panel of independent marketing and retailing experts.



IN-STORE RETAIL PROMOTIONS INCREASE AWARENESS OF LAMB AND ENCOURAGE MORE CONSUMERS TO CONSIDER AUSTRALIAN LAMB AS AN EVERYDAY MEAL OPTION



THE AUSSIE BEEF SCHOOL EDUCATION PROGRAM IS A NEW INITIATIVE AIMED AT SHORING UP CONFIDENCE IN AUSSIE BEEF AMONGST PARENTS AND THEIR CHILDREN

01

Trade development – livestock exports

INVESTMENT

| | |
|-----------|--------|
| This year | \$0.6m |
| Last year | \$0.8m |

\$0 \$0.2m \$0.4m \$0.6m \$0.8m

MIDDLE EAST

A key plank in our activities to grow Australian lamb and beef sales in the Middle East was the launch of a new Halal logo aimed at reinforcing Australia's strict Halal standards in one of the world's largest Muslim markets.

A tactical advertising and communications campaign on the safety, traceability and Halal standards of Australian red meat resulted in more than 35 media items with more than six million readers.

Our training seminars introduced 84 chefs, butchers and hotel managers to the superiority, reliability and versatility of Australian beef. This was further reinforced through the showpiece MLA Black Box Culinary Challenge in Dubai and our sponsorship of the 'Time Out Steakhouse of the Year' award in Abu Dhabi.

EUROPE AND RUSSIA

Until 2006, the Russian market was barely a blip on the radar of the Australian red meat industry. However, last year a unique set of circumstances saw Australian beef exports soar from 500 tonnes in 2005 to just over 12,500 tonnes, and exports of Australian mutton more than doubled to nearly 11,700 tonnes.* These circumstances included the European Union being unable to fulfil its frozen beef quota, the absence of US beef (due to BSE-related trade bans) and the lack of Brazilian beef in the market (due to FMD restrictions).

Building on Australia's global reputation as a supplier of high quality red meat, we identified key importers, developed



A NEW HALAL LOGO AIMED AT REINFORCING AUSTRALIA'S STRICT HALAL STANDARDS IN ONE OF THE WORLD'S LARGEST MUSLIM MARKETS WAS LAUNCHED TO HELP GROW AUSTRALIAN LAMB AND BEEF SALES IN THE MIDDLE EAST.

relationships, conducted meat quality training programs and linked them with Australian suppliers to capitalise on Russia's emergence as a high-value market, with demanding consumers and a rapidly growing, five-star restaurant sector.

Much of our work in the European Union is focused on access issues, however we also invest in building relationships with the trade. We participated in a major trade show in Paris and made presentations to prospective retailers, which are critical to gaining ground in the competitive European market.

SOUTH-EAST ASIA

Driven by demand from Indonesia's manufacturing sector for frozen product, beef exports to South-East Asia grew 4% in 2006-07. Sheepmeat exports decreased by 6% as a result of a challenging exchange rate and high demand for lamb from alternative, higher value markets, particularly the US and Japan.

Australian red meat continues to face fierce competition in South-East Asia from Brazil, Argentina, India and New Zealand. However, well-established supply chains and co-funded marketing programs with six exporters have enabled industry to capitalise on Australia's international disease-free status and differentiate itself from low cost suppliers, securing an average 80% of imported retail shelf space in the chilled beef sector.

Almost 250 foodservice professionals participated in the annual MLA Black Box Culinary Competitions in the region helping to increase their exposure and understanding of Australian beef and lamb.

The Handbook of Australian Meat was translated into Chinese, providing the trade with a resource to enhance their knowledge of Australian product to supply the growing Chinese market.

* Source: Department of Agriculture Fisheries and Forestry (DAFF)
 ** Source: Agriculture and Livestock Industries Corporation (ALIC)
 † Source: Embrain Co., Ltd.

PROGRAM OBJECTIVE

Increase market access and demand for Australian cattle, sheep and goats

KPIs

- Improve veterinary protocols in at least one Asian and one Middle Eastern market
- Increase demand for beef from imported Australian cattle in Indonesia
- Pilot and maintain a livestock export market outlook service

OUTCOMES

- Improved health protocols for exports to Indonesia and Turkey, and re-opened Libyan market for trade
- Retail promotions in 40 supermarket outlets resulted in more than 100% increase in sales at these outlets during promotions
- Quarterly forecast for livestock exports circulated for industry review

BENEFITS

- More efficient and effective regulatory requirements, and potential \$40 million Libyan markets re-opened
- Product from Australian livestock account for 70% of supermarket shelf space in Indonesia
- Producers informed on market forecast

FUTURE

- Investigate new markets and improve access to existing markets
- Continue retail promotions in Indonesia
- Review quarterly livestock export forecast
- Consumer surveys in Indonesia and the Middle East to better target marketing efforts

STRONG PERFORMANCE

Despite a rapid increase in the A\$, the Australian livestock export trade has delivered a strong performance this year, assisted by improved protocol arrangements and increased promotional activity funded by the increased cattle transaction levy.

SUPPORTING EVERY LINK IN THE CHAIN

The success of our livestock export programs lies in our ability to support every link in the livestock chain. This year we conducted breeding workshops in Indonesia; animal nutrition, health and general feedlot management workshops in Malaysia; and retail store training in product knowledge, handling, quality and range, and service standards in The Philippines, Malaysia, and Indonesia.

In Indonesia, we worked with Sterling Beef (Elders) and Santori to build recognition of Australian bred and locally fed beef brands, to capture consumer confidence in the product and drive sales in supermarkets.

Run in 40 outlets of four retail supermarket chains – Alfa, Carrefour, Hypermart and Superindo – with activities such as in-store taste testing, counter recipe cards and consumer incentives, the campaigns delivered a 100% increase in beef sales over the promotional periods.

A detailed quarterly market forecast, analysing key markets and trends was released as a tool for producers in assessing market options.

IMPROVED HEALTH PROTOCOLS OPEN TRADE

We worked with industry and governments to improve health protocols in Libya, paving the way for the Libyan market to re-open and for the Australian Government to allow livestock trade to resume for the first time since 1999. In May 2007 the Australian Government signed a Memorandum of Understanding (MoU) with Libya detailing the requirements



PROMOTIONS IN 40 SUPERMARKETS RESULTED IN MORE THAN 100% INCREASE IN SALES AT THESE OUTLETS DURING PROMOTIONS

for the resumption of trade. This MoU provides a real opportunity for Australia's livestock producers, with the Libyan market predicted to grow to \$40 million a year.

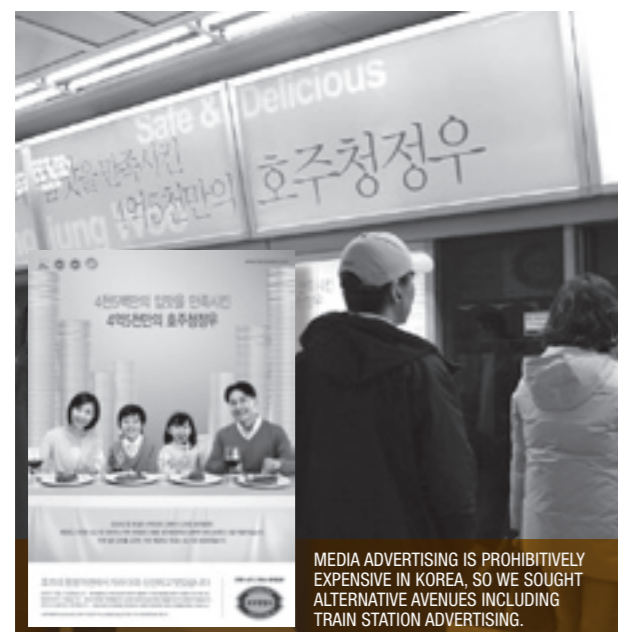
Health protocols were also improved in the export of breeding cattle to Turkey and in feeder cattle to Russia.

SHEEP SHORT ON SUPPLY

The Australian industry has a good standing in the livestock export market in the Middle East, where our sheep are highly sought after due to an established reputation as being high quality and disease-free.

The ongoing drought and reduced shipping capacity, however, affected our ability to supply this region, with the number of live sheep exported down 2.6% on the previous year to 4.1 million head.

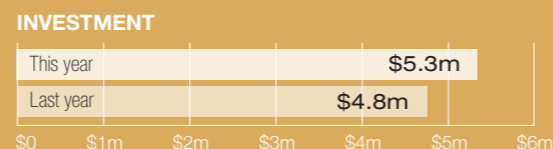
As a result our activities in this region to promote Australian livestock were significantly reduced, though we continued our efforts to build relationships with buyers in the region, linking buyers with potential suppliers from Australia and providing infrastructure improvements and training workshops focused on improved animal handling and welfare.



MEDIA ADVERTISING IS PROHIBITIVELY EXPENSIVE IN KOREA, SO WE SOUGHT ALTERNATIVE AVENUES INCLUDING TRAIN STATION ADVERTISING.

01

Market access



| PROGRAM OBJECTIVE | KPIs | OUTCOMES | BENEFITS | FUTURE |
|--|--|---|---|--|
| Maintain and improve access to international markets | <ul style="list-style-type: none"> Reduce trade barriers in at least one market Ensure industry's priorities for trade reform are acknowledged | <ul style="list-style-type: none"> Japan beef safeguard not triggered Trade Minister and negotiators acknowledge priorities | <ul style="list-style-type: none"> Market uncertainty reduced Potential reduction in tariff barrier | <ul style="list-style-type: none"> Continued trade reform advocacy Partnership with key government trade negotiators |

WTO ACTIVITIES

During the glacially slow progress of the World Trade Organization (WTO) Doha Round we have continued to proactively communicate the Australian red meat industry's position and ensure its priorities remain on the negotiation table. These priorities include lower beef import barriers in Japan, Korea, South Asia and the European Union and improved access for sheepmeat in the EU and South Africa.

During the five years the WTO Doha Round has been in progress we have continued to emphasise the need to secure real new trade flows with Australia's Trade Minister and trade negotiators in Canberra, Geneva and Brussels.

We have been involved on a select working group to review technical papers arising out of the WTO negotiations; represented industry interests at Cairns Group Farm Leaders meetings; presented on beef trade reform at the Five Nations Beef Conference; and met with the Chair of the WTO Agriculture Committee to emphasise the importance of securing genuine trade reform for beef and sheepmeat.

BILATERAL DEFENCE AND IMPROVEMENT

Monitoring and reporting on the re-entry of US beef to our North Asia markets dominated access activities in this

region. The status of increased competition was regularly communicated to the Australian industry and key customers in Japan and Korea.

MLA worked closely with the Australian Wagyu industry on making representations to the Japanese Government on its moves to safeguard Wagyu genetics and the labelling of Wagyu product in Japan. Discussions are continuing.

With support from the Australian Government and Embassy, we advocated modification to the beef import tariff snapback reference period in Japan, thereby averting the import tariff increasing from 38.5% to 50%.

Other key activities in North Asia included our high level input into the Australia-Japan free trade agreement (FTA) negotiations and the FTA feasibility study underway with Korea.

This builds on our close involvement with other FTA negotiations in China, Malaysia, ASEAN, Chile and the Gulf Cooperative Council, as well as the economic relations study in progress with Mexico.

As a market with potential benefit for the Australian industry, our work in China has concentrated on trade facilitation including liaison with authorities regarding China's import regime (protocols, non-tariff barriers and import regulations).

We continue to make representations on technical access issues such as country of origin labeling, traceability and certification standards. In addition, we have reinforced the integrity of Australian Halal procedures with overseas customers.

In other markets, strong liaison with trade and governments kept beef access on the agenda in Malaysia and work continued on improving import regulations for beef offal exports to Indonesia.

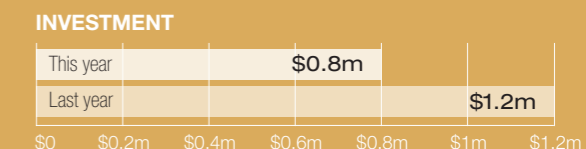
In conjunction with the Sheepmeat Council of Australia, we built closer rapport with the United Kingdom, French and South African sheepmeat producer organisations, and enhanced our ongoing work with US and New Zealand sheep producers under the Tri-Lamb alliance.

The accession of Bulgaria and Romania to the EU sparked our representation to Department of Foreign Affairs and Trade to secure compensation for prior trade performance via expansion of Australia's country-specific EU quotas.



AMIC'S ROGER FLETCHER AND MLA CHAIRMAN DON HEATLEY HEAD TO THE TRADE MINISTER'S OFFICE TO MAKE REPRESENTATIONS FOR INCREASED SHEEPMEAT ACCESS TO THE EU

Red meat innovation



| PROGRAM OBJECTIVE | KPIs | OUTCOMES | BENEFITS | FUTURE |
|---|---|--|---|--|
| Grow demand for red meat through innovative products and technologies | <ul style="list-style-type: none"> Two new shelf-stable products developed to increase return on secondary cuts Two novel convenience products developed from secondary cuts One new technology for manufacture of products used in institutional aged care market | <ul style="list-style-type: none"> The development of four pre-cooked extended shelf life products Ten new product prototypes based on secondary cuts High pressure processing to improve eating quality of secondary cuts being assessed | <ul style="list-style-type: none"> Sales of shelf-stable products are expected to reach \$14m in 2007 Retail butchers increased sales by \$10m pa by value-adding secondary cuts Access to emerging technologies for manufacturing ready-to-eat red meat meals | <ul style="list-style-type: none"> Research new technologies to improve eating quality of secondary cuts Accelerate consumer uptake of convenience products Develop technology and products for self-care aged market |

EXTENDING SHELF LIFE

Sales of shelf-stable products continue to climb with figures estimated to reach \$14m this year (2007). Confidence in the market has climbed, with five companies investing a combined total of \$8m in equipment to manufacture shelf-stable red meat products this year.

To support investment by industry into shelf-stable technology, we have studies underway into the suitability of shelf-stable products for the institutional aged care sector and additional market opportunities overseas.

MAKING MORE FROM SECONDARY CUTS

Secondary cuts such as blade, knuckle, brisket and chuck make up more than 60% of the carcass and are therefore a primary focus for our value-adding activities. We have introduced a range of programs to enhance the value gained from secondary cuts.

Trials with Tatiara Meat Company applied 'meat strip alignment technology' to secondary sheepmeat cuts, resulting in new value-added products, such as diced, strips and steaks, for foodservice and consumers in the Asian export market. These reformed sheepmeat products were trialed in February and trials are expected to be completed early in the coming year.

The success of re-formed sheepmeat products is paving the way for application to beef. New projects with commercial value-adders are looking at how to achieve similar success.

THE AGEING SOCIETY

The aged care sector in Australia, including both institutional and self care, is estimated to be 2.4 million people. This population is estimated to consume around 55,000 tonnes of red meat per year, which is considerably less than the average Australian and are a significant challenge for the



CREATIVE BUTCHER WORKSHOPS RESULTED IN A \$10M INCREASE IN VALUE-ADDED SECONDARY CUTS

industry as the ageing population increases. The aged population has increased from 12.6% to 13.3% over the last five years and is expected to account for more than 25% by 2045.

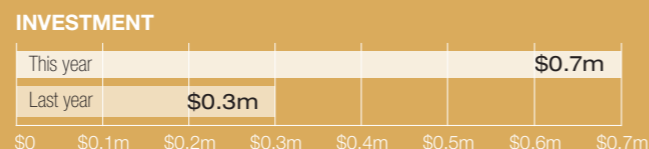
This market has been the focus of a number of our activities to increase red meat consumption from its current levels by addressing age specific impediments such as bite feel, texture and swallowing disorders.

First steps were taken to understand the aged care market with a report released late last year highlighting bite texture as a major issue. This report led to a project conducted with Food Science Australia to assess the ability of high pressure processing to cost-effectively manipulate the eating quality of secondary cuts.

CREATIVE CONVENIENCE

Secondary cuts once again featured heavily in our efforts to increase demand for red meat. Working with butchers in a series of creative butcher workshops, sales of value-added secondary cuts have increased by around \$10m a year. Working with retailers, we have developed 10 new value-added products from secondary cuts such as knuckle, oyster blade and topside. Retailers are currently assessing a range of products for release.

01 Co-products



| PROGRAM OBJECTIVE | KPIs | OUTCOMES | BENEFITS | FUTURE |
|--|--|---|--|--|
| Increase the value of a carcass by increasing the range and profitability of red meat co-products | <ul style="list-style-type: none"> Half the bioactive supply chain network aware of opportunities Identify on-farm practices that add value to red meat by-products Best practice benchmark for offal recovery established and piloted in three abattoirs | <ul style="list-style-type: none"> 67% of workshop participants increased awareness and four commercial projects established A project initiated to calculate the potential for on-farm interventions that increase blood product value Eight abattoirs surveyed and three being benchmarked | <ul style="list-style-type: none"> Industry skilled in identifying and acting on market opportunities Potential increase in the value of livestock sold Significant improvements for offal recovery and profitability | <ul style="list-style-type: none"> Increase industry's capability to enter new value chains Facilitate a dedicated supply chain from farmer to pharma Develop research know-how |

HARVESTING BIOACTIVES

A major focus of our activities this year has been equipping the industry with understanding and expertise to capture opportunities for increasing carcass value by harvesting bioactives. A series of workshops for meat processors and research providers has resulted in three commercial R&D projects: Chondroitin sulphate manufacture for joint ailments; blood fractionation for pharmaceutical applications; and placental bioactives.

Using animal organs (post-slaughter) as biochemical factories is the focus of a project aiming to demonstrate proof of principle for using animal tissue to generate higher value products.

Another project initiated this year is calculating the potential for on-farm interventions for increasing the value of bioactives, with a focus on blood products for the pharmaceutical industry. Blood serum exported from Australia is currently valued at \$100m a year in a world market valued at \$500m a year. Given Australia's 'clean and green' industry and state-of-the-art traceability, there is potential to double our share of this market.

CO-PRODUCTS

A significant amount of time and effort has gone into the development of biodiesel from tallow in previous years,



A PILOT TO PRODUCE LAMB EARS FOR PET TREATS USING A SPECIAL TECHNOLOGY TO DE-HAIR THE EARS, WAS SUCCESSFULLY COMPLETED

however cold weather was inhibiting its uptake. This year, Flinders University developed an additive to overcome cold weather issues and at the same time we are facilitating the commercialisation of the technology. All major biodiesel manufacturers and a multinational chemical additive company have expressed interest.

The *salmonella* problem solving guide, endorsed by the Australian Renderers Association and launched at their annual general meeting, was developed to reduce incidence of *salmonella* in rendered products. The guide was successfully trialed by three companies allowing them to continue selling their product into the Australian feed market.

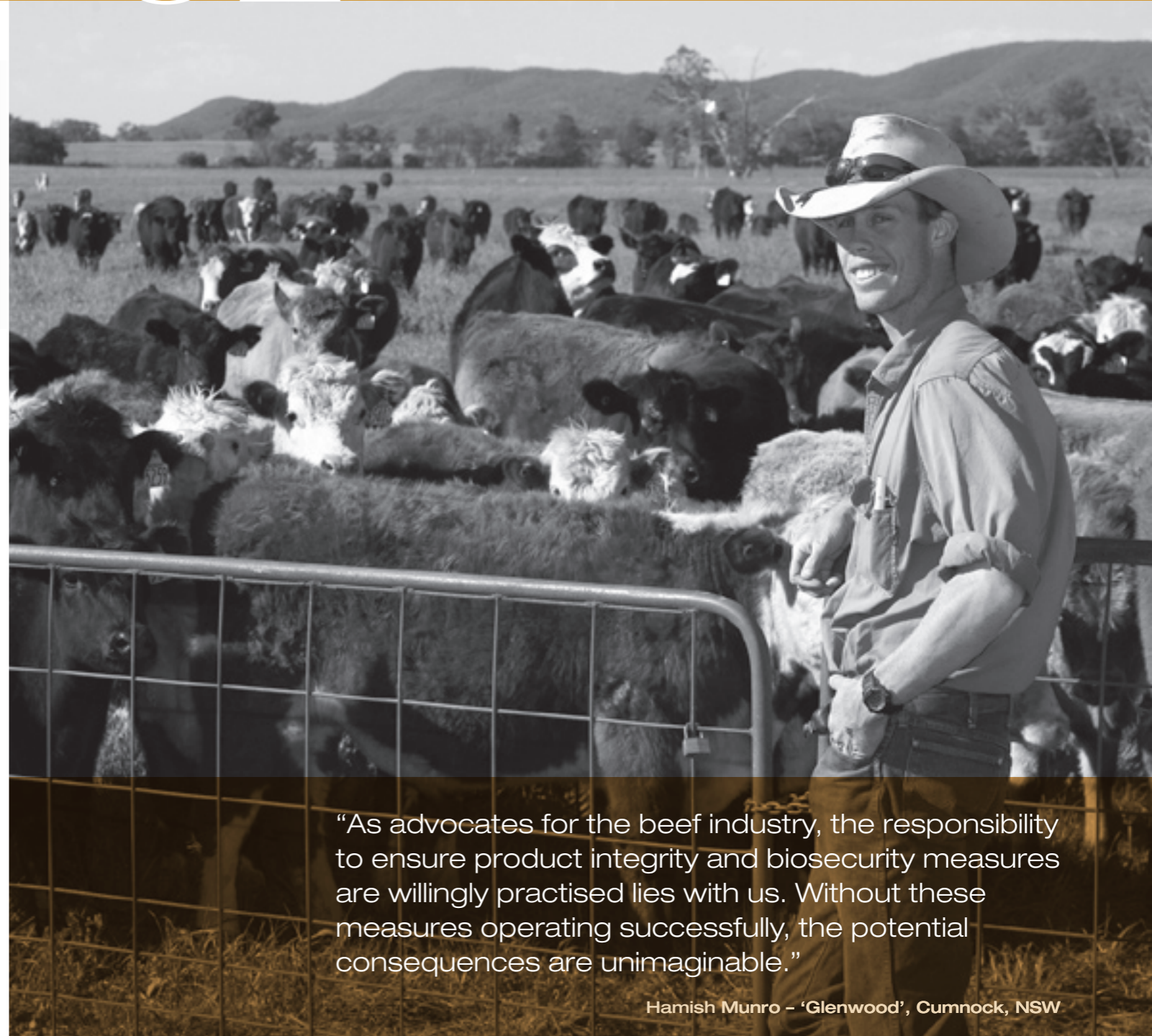
Poor offal recovery is hampering efforts to fully utilise the carcass and research to date suggests it is possible to increase average yields by 5% by implementing best practice. To close this gap we are developing best practice procedures and information systems that assist in the process and also provide feedback to producers.

PET PRODUCTS

Pet populations in affluent countries are ageing and the pet food industry is investing in the development of nutraceuticals that offer therapeutic treatment for domestic animals. This is a relatively untapped market for the red meat and livestock industry, and we therefore carried out a market study to identify the top five pet nutraceuticals and initiated a pet treat product development project. Pet treats are a convenient means of delivering nutraceuticals to the animals and represent a rapid route to market.

A pilot scale trial was conducted using specially designed technology to de-hair lambs ears and process them for pet treats. The trial was successful and a processor is investing in further development work.

02 Product initiatives



“As advocates for the beef industry, the responsibility to ensure product integrity and biosecurity measures are willingly practised lies with us. Without these measures operating successfully, the potential consequences are unimaginable.”

Hamish Munro – ‘Glenwood’, Cumnock, NSW

PRODUCT INITIATIVES

- MEAT SAFETY/ISSUES MANAGEMENT
- MEAT STANDARDS AUSTRALIA



Meat safety/ issues management

INVESTMENT

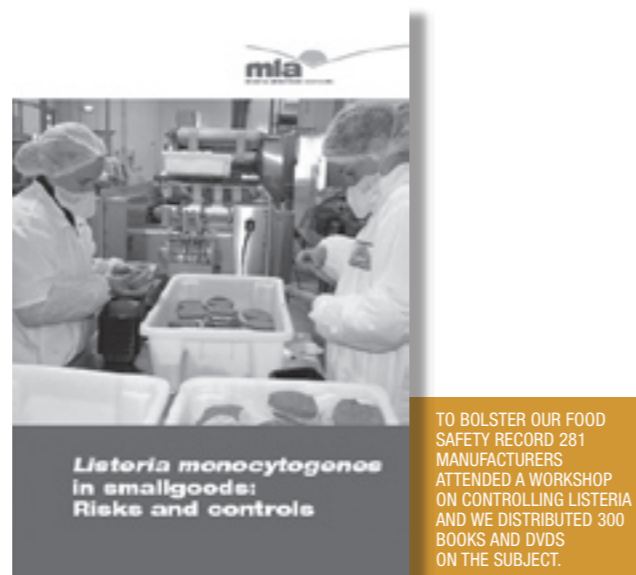
| | |
|-----------|---------|
| This year | \$13.9m |
| Last year | \$14.2m |

NLIS DELIVERS TRACEABILITY OUTCOMES

The National Livestock Identification System (NLIS) database underwent a vast number of audits this year, including reviews by the European Union and PricewaterhouseCoopers, and performed well. Most recently Animal Health Australia, in conjunction with the Department of Agriculture, Fisheries and Forestry, conducted a cattle tracing simulation exercise (Cow Catcher II) to independently audit NLIS against the National Traceability Performance Standards.

The exercise proved that the NLIS database has the capacity to cope well under the load of a simulated disease outbreak. The results of the simulation shored up confidence in the system – should a foot and mouth disease outbreak or residue incident occur, NLIS can deliver outcomes that meet government requirements.

Conducted from 1–3 May 2007, the ‘Cow Catcher II’ exercise gave each state/territory jurisdiction 24 hours to trace all movements of an allocated number of cattle (from a total of



300 nationally) for the previous 30 days through all properties these animals had come into contact with. Further, within 48 hours, 30 cattle required their entire lifetime traced and all animals they had come into contact with identified.

The NLIS database performed exceptionally well and received strong endorsement from participants.

Some of the key milestones from the exercise were:

- No performance issues experienced or reported by stakeholders conducting normal business with the database
- MLA provided traceability reports on 165 animals, covering movements during their past 30 days and all cohort contacts
- Total processing time for this information was 12 hours
- State jurisdictions performed 3,082 queries on the live database during the exercise, 88% of which were processed in under one minute and a further 10% in under five minutes
- For each individual trace the number of properties possibly infected ranged from 1 to 6,500
- In total over 100,000 properties were estimated to have been reported on during the exercise

ENSURING FOOD SAFETY

In the area of food safety, we developed a number of tools to ensure consumer confidence in the safety of our red meat products.

| PROGRAM OBJECTIVE | KPIs | OUTCOMES | BENEFITS | FUTURE |
|--|---|--|--|---|
| Ensure integrity and safety of beef and sheepmeat | <ul style="list-style-type: none"> • Ensure NLIS database meets Government database traceability requirements • 10% increase in LPA QA program participants • Deliver new risk management options to ensure consistent processing standards for smallgoods | <ul style="list-style-type: none"> • Successfully simulated disease outbreak test traced ‘affected’ animals in 24 hours and cohorts in 48 hours • Number of participants in LPA QA program increased by 13.4 % • 300 books and DVDs distributed, and 281 manufacturers attended workshop on controlling <i>Listeria</i> | <ul style="list-style-type: none"> • Minimise trade disruption in the event of a food safety scare • Food safety underpinned by third party audited quality assurance • Less unfavourable publicity and fewer product recalls of smallgoods | <ul style="list-style-type: none"> • Develop tools for producers to use NLIS as part of their livestock management • More modules for tailored QA programs • A tool will be developed to tell manufacturers whether <i>Listeria</i> is able to grow in their product |

A quality assurance (QA) resource on managing regulatory and customer compliance was released on CD-ROM to processor QA managers. The aim of designing a digital encyclopaedic resource was to ensure Australian processors not only produce a consistent, quality product, but that they are equipped to provide scientific substantiation of their practices to auditors and customers. QA managers using the software have found it beneficial in refining operating procedures, updating HACCP plans, locating information to assist with customer audits and staff training. With 280 copies of the CD distributed at 30 June 2007, the resource will be revised and expanded in response to QA manager feedback in the future.

We also delivered 300 booklets and DVDs on controlling *Listeria* in smallgoods and ran a series of workshops across the country for 281 retailers and specialist smallgoods manufacturers. Of those who attended the workshop, 95% considered it beneficial in providing advice on reducing the risks of contamination with *Listeria* during the manufacture of smallgoods, and 90% indicated they would take action and implement changes following the workshops. The production of these resources gives smallgoods companies guidance on how to control this problem, leading to enhanced product safety, hopefully less unfavourable publicity and fewer product recalls. The Meat Standards Committee intends to use the booklet as a basis for auditing smallgoods manufacturers.

COMMUNICATING THE BENEFITS OF NVDs

Marking 10 years of National Vendor Declarations (NVDs), we launched the Livestock Production Assurance (LPA) NVD communications campaign this year. Engaging all levels of the food chain, the campaign reiterated the importance of correctly completing LPA NVDs.

Launched at the Gunnedah saleyards in January 2007, the campaign generated extensive media coverage in key regional markets with 49 articles and interviews tracked.

Flyers, posters, banners and fact sheets were all developed for use at events, saleyards and agents’ offices.

The message to producers focused on full market access for their red meat provided LPA NVD paperwork was accurately completed. The message was reinforced by industry representatives in each state and high profile red meat customers such as Hungry Jack’s, who provided testimonials on the importance of correctly completed NVDs and the LPA system. These testimonials were used in advertorials, editorials and MLA publications.

Two national advertising campaigns executed in January 2007 and April 2007 were used to highlight the industry’s role in the LPA NVD process.

The LPA NVD program will be administered by AUS-MEAT in 2008.

ASSURING PRODUCT QUALITY THROUGH LPA

An additional 253 new producers registered online for the LPA QA program since it was launched in late 2006, bringing the total number of producers registered to 2,000 – a 13.4% increase that exceeded our target of 10%.

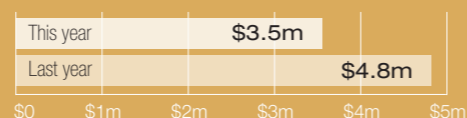
There are now 112,787 fully accredited producers in LPA, equating to 63% of the property identification codes registered. Information acquired from our NVD communications program suggests that 98% of livestock processed nationally now come from LPA-accredited properties, instilling confidence in the industry that they have met required food safety and quality assurance standards.



02

Meat Standards Australia

INVESTMENT



PROGRAM OBJECTIVE

Maintain leading eating quality grading and labelling systems

KPIs

- Encourage and implement electronic monitoring of company graders
- Roll out the MSA sheepmeat program to 12 processors
- Identify the feasibility of value-adding beef primal cuts in a commercial environment

OUTCOMES

- 114 processing employees using MSA electronic monitoring system
- Seven processing plants have undertaken MSA sheepmeat training in preparation to commence, with two already operating the program
- Sensory testing conducted on Japanese consumers

BENEFITS

- Improved integrity systems for MSA
- Reliable eating quality standards for sheepmeat
- Improved taste perceptions of Australian beef internationally

FUTURE

- Increase beef grading by 10%
- Further roll out the MSA sheepmeat program and migrate MSA beef standards to AUS-MEAT
- Release new model incorporating R&D from Japan, Korea and US and develop standards and systems for its use by export processors

A total of 715,856 head of cattle were graded through the Meat Standards Australia (MSA) program, an increase of 10.9% on last year's numbers.

Highlights for our eating quality program in 2006-07 were the roll out of the MSA sheepmeat eating quality standards, the introduction of a system that electronically monitors company graders and the Japanese segmentation research.

ENSURING SHEEPMEAT EATING QUALITY

The MSA standards for the sheepmeat eating quality (SMEQ) manual were developed, along with training programs for

processors. Seven processors were trained in sheepmeat standards and a number of supply chains are now using SMEQ systems. We did not reach our KPI due to a number of processors not progressing to the stage of full implementation.

ELECTRONIC MONITORING

Maintaining the integrity of the MSA trademark is a key objective of the program. In conjunction with AUS-MEAT, we introduced an electronic monitoring system of graders to maintain quality standards.

The computer-based system has been taken up by 31 plants and used by 114 company graders, who regularly complete an online MSA assessment which tests them on meat colour, fat colour, marbling and all MSA grading components. Test results are submitted to the MSA website resulting in graders either maintaining their MSA accreditation or being identified for re-training in specified areas. The system has been very successful, cost effective and has overseas commercial prospects.

DIFFERENTIATING OUR PRODUCT IN JAPAN

Groundbreaking research this year saw the science behind MSA help us identify the preferred tastes of Japanese consumers.

The project, conducted in late 2006, was undertaken to differentiate Australian beef and make sure our product suits the taste requirements of Japanese consumers. No other country in the world is in possession of this sort of knowledge and expertise that offers consumers the confidence to buy product that meets expectations every time. The results of this study will assist in growing demand for our red meat in one of our major export markets.

Consumer research has also been undertaken in the United States, Northern Ireland and the Republic of Ireland.



ENSURING MSA QUALITY STANDARDS ARE MAINTAINED, WE INTRODUCED AN ELECTRONIC MONITORING SYSTEM FOR 114 COMPANY GRADERS. (PH MEASUREMENT PICTURED HERE)

03

Community concerns



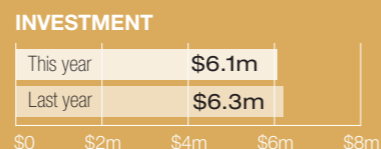
“Latest research is showing that the community are concerned about health and wellbeing. This now extends to the environment and they want to know that the food they eat is not harming the environment.” Jenni O'Sullivan

O'Sullivan family – Gippsbeef, Tarwin Lower, Victoria

COMMUNITY CONCERNS

- ENVIRONMENT – RESOURCE MANAGEMENT • ANIMAL WELFARE – ON-FARM
- ANIMAL WELFARE – LIVESTOCK EXPORT • INDUSTRY INTEGRITY COMMUNICATIONS

03 Environment – resource management



| PROGRAM OBJECTIVE | KPIs | OUTCOMES | BENEFITS | FUTURE |
|---|---|--|---|---|
| Undertake research into priority environmental issues and support adoption of outcomes | <ul style="list-style-type: none"> Quantify the effect of red meat supply chains on water use, greenhouse and solid waste emissions Identify requirements that demonstrate responsible environmental management Develop and launch best practice environmental guidelines for processors | <ul style="list-style-type: none"> Life cycle analysis has been calculated for three supply chains and the results are awaiting peer review 55 key opinion leaders interviewed to design the LPA QA environmental module and the Landleader survey Best practice guidelines endorsed by DAFF and AMIC distributed via workshops in all states and territories | <ul style="list-style-type: none"> Credible data for actual water usage and greenhouse emissions Retain industry access to natural resources Processor viability verified for regulators | <ul style="list-style-type: none"> An environmental footprint analysis performed to identify the sustainability of natural resource use Increase uptake of Landleader and LPA QA Roll out to environmental regulators and agencies |

DEMONSTRATING ENVIRONMENTAL STEWARDSHIP

Recognising that the level of scrutiny and demand for environmental information is likely to increase over time, a number of new environmental management initiatives were implemented this year.

Collaborating with Australian Wool Innovation (AWI), we developed Landleader – an initiative to track change in on-farm environmental management and generate data that can be used to demonstrate improvement at an industry level. The development included initial focus group meetings and a three-week data collection period in which over 1,000 producers were surveyed.

We developed and road tested two regionally-specific, voluntary environmental modules for Livestock Production Assurance. The program allows producers to assure environmental performance at an individual farm level in response to specific market demands, or to underpin a brand claim.

Both of these initiatives were funded through DAFF's Pathways to environmental management systems program.

We also focused on modelling the environmental impact of red meat production systems to generate quantitative data robust enough for scientific and public debate. Water use, greenhouse gas and solid waste emissions have been calculated for three supply chains and the results are awaiting peer review. Modelling environmental impact is an emerging science and we will continue to build capacity in this area to ensure credible results.

WAGING WAR ON WEEDS

Weeds continue to be one of Australia's largest environmental issues costing the industry A\$1.5 billion annually.*

This year we invested in longer term biocontrol options for prickly acacia, bellyache bush and Parkinsonia, and invested with AWI in new weed control publications and extension activities. These included best practice recommendations for six weeds of industry significance highlighting the 3D approach to weed control – deliberation, diversity and diligence; 24 producer case studies; two new *Tips & Tools*; and a management guide for Sporobolus grass weeds.

FUTURE FARM INDUSTRIES CRC

An ongoing commitment was made this year to reducing water use and salinity, and improving native vegetation, in the establishment of the Future Farm Industries Cooperative Research Centre (FFI CRC), which MLA supports along with 15 other partners.

BEST PRACTICE PROCESSORS

The red meat processing industry achieved a major milestone in environmental management through the official launch of its *Environmental Best Practice Guidelines* by Federal Agriculture, Fisheries and Forestry Minister Peter McGauran, and endorsed by DAFF and all industry bodies in the sector.

The guidelines, consistent with the many stringent regulations, define current environmental best practice for meat processors and address issues covering odour and air quality, wastewater treatment and its irrigation to land, waste solids and energy management.

Their aim is to provide an agreed and consistent statement of current environmental best practice in the Australian meat processing industry which promotes efficient consumption of resources and minimises its ecological footprint.

* From Sinden et al. 2003 Calculated from total control costs and yield losses in the livestock industry of \$2.1 billion less wool yield losses of \$588 million.

Animal welfare – on-farm



| PROGRAM OBJECTIVE | KPIs | OUTCOMES | BENEFITS | FUTURE |
|---|--|---|---|--|
| Improve livestock well-being and address issues of community concern | <ul style="list-style-type: none"> Develop three best practice resources Identify welfare outcomes from livestock transport Determine impact of variable shade on heat load and incorporate into risk assessment software | <ul style="list-style-type: none"> Best practice castration, branding and dehorning guide developed with input from RSPCA, state governments and industry Studies confirmed that transport up to 48 hours does not compromise welfare for healthy, well prepared adult cattle and sheep Updated risk assessment software now available to all feedlots | <ul style="list-style-type: none"> Proactive approach to welfare standards and support of best practice on-farm Current industry best practice supported with rigorous science Most effective and economic level of shade provision for reducing heat load risk identified | <ul style="list-style-type: none"> Develop further resources and distribute widely Conduct further research to establish appropriate welfare standards Repeat research to validate findings |

SUPPORTING WELFARE ON-FARM

Industry's commitment and proactive approach to improved animal welfare standards is ongoing.

Testament to this is the development of a new guide on branding, castration and dehorning that outlines best practice techniques and alternatives for each procedure, including equipment maintenance, OH&S considerations and animal after-care.

We undertook extensive consultation with RSPCA, agricultural colleges, veterinary schools and industry to develop the guide, and 1,903 copies were delivered within the first week of its release to the broader industry. Over 80 education providers will also receive free copies of the guide to assist teaching new entrants to the industry.

TRUSTWORTHY TRANSPORT

We have continued to support the industry with research to identify welfare outcomes from the transport of sheep and cattle.

The research, conducted by CSIRO, comprises four stages, including investigating the effects of transport time on the welfare of sheep and cattle. Research results support current industry best practice which allows adult animals to be transported for up to 48 hours (as long as the animals are in good health, have not been curfewed prior to transport and are transported using best practice) with no compromise to their welfare.

This research has been used to inform the development of the drafted Australian transport standards and guidelines for the welfare of animals. Additional research has catalogued improvements that allow industry to establish their long-term commitment to improving the welfare outcomes for animals transported in Australia.

Is it fit to load? – a national transport guide developed this year – provided industry with a simple reference book on what to look

out for when transporting livestock. Over 53,700 copies have been distributed across the country. The guide has been strongly supported by industry, including agents and transporters as well as state agricultural departments. It demonstrates the industry's commitment to supporting transport best practice.

HEAT LOAD AMELIORATION

It might seem obvious that shade is an effective way of reducing heat stress in feedlot cattle, but this year we identified the specific impacts of varying levels of shade on animal welfare.

We have incorporated these research results into the Risk Analysis Program software, which was developed as a result of six years of research, to ensure clear guidelines are available to all operators on the most effective and economic level of shade coverage necessary to prevent excessive heat load.

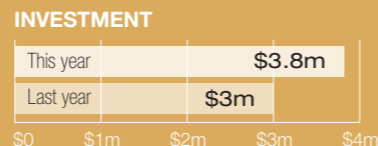
In addition, the Feedlot Industry Accreditation Committee made the decision to incorporate excessive heat load guidelines into the National Feedlot Accreditation Scheme. This means from October 2007, all 650 accredited feedlots will be required to undertake a risk assessment and develop a summer management plan that outlines the range of measures they will implement to reduce their heat load risk.



THE MOST EFFECTIVE AND ECONOMIC LEVEL OF SHADE IN FEEDLOTS TO REDUCE HEAT LOAD RISK WAS IDENTIFIED



Animal welfare – livestock export



PROGRAM OBJECTIVE

KPIs

OUTCOMES

BENEFITS

FUTURE

Improve livestock welfare during whole export process

- Restraining boxes used in the slaughter of 85% of cattle in Indonesia
- Improved animal handling in Middle Eastern feedlots

- 40 restraining boxes installed in processing facilities handling over 85% of Australian cattle throughput
- Over 70 training sessions delivered to over 500 workers from feedlots, trucks, ships and abattoirs in six countries

- Substantial animal welfare improvements coupled with processing efficiency gains and safer working conditions for Indonesian abattoir workers
- Stimulating ongoing change in habits and culture leading to improved animal welfare and improved efficiencies

- An additional 30 restraining boxes to be installed in South-East Asia
- Further training on animal handling, nutrition and heat stress delivered in the Middle East
- Continued communication to ensure an informed Australian community

COLLABORATIVE APPROACH

We worked closely with the Australian Government to assist the Australian industry to improve the welfare of livestock throughout the export process, up to and including the processing of animals in-market. Our activities in this area continue to focus on working with overseas customers, understanding local issues and cultural attitudes, influencing behaviour to improve welfare and consequently the end product, and meeting our own community's animal welfare expectations.

TRAINING DELIVERS

Our animal welfare training programs have been rolled out and well received by over 400 vets, government officials and industry personnel in South-East Asia and the Middle East.

A five-day Animal Welfare Foundation workshop was delivered in conjunction with the government in Egypt, focussing on improving understanding of animal welfare issues and developing strategies to address these concerns. As a result of this workshop, government established its own Animal Welfare Unit with an officer in every region throughout the country.

Animal welfare seminars were delivered in Indonesia to 250 staff and students of the Bandung Agricultural University, and a full time in-market consultant was appointed in Indonesia to instruct on the correct use of restraining boxes, to highlight the benefits of the practice and ensure its acceptance.

Stock handling training delivered to 500 people involved in the animal supply chain in Bahrain, Qatar, Jordan, Egypt, Oman and Kuwait focused on safe and efficient discharge at Gulf ports and land transport to feedlots.

The training we delivered to workers at the Bahrain port saw unloading rates improve from 600 head/hour to 2,000 head/hour, providing the triple bottom line benefits of improved

welfare for livestock waiting to be unloaded, improved efficiencies with the vessel in port for a shorter period, and fewer staff required to unload the vessel.

LOCAL OWNERSHIP SUCCESS

Understanding the local community was paramount to our success in Indonesia this year, particularly regarding the installation of restraining boxes in processing facilities.

Additional funding from the Australian Government via the Keniry budget allowed for rapid expansion of the restraining box installation program, helping us exceed our goals by seeing 40 new systems installed in 37 major abattoirs. Importantly this program used locally manufactured restraining boxes installed by local Indonesian people, establishing a sustainable model of improvement that does not rely on external support for its maintenance and expansion.

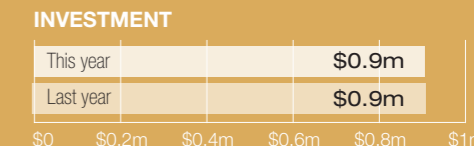
BALANCED REPORTING ON TRADE

We have worked hard to provide the Australian community, largely via the metropolitan press, with a more balanced picture of the trade and the people involved in it than that offered by animal activists.

We placed a series of one-page advertorials in WA newspapers to ensure the Perth community was aware of the activities, improvements and enhancements to the livestock export trade.

In addition, we conducted a review of all communication activities to benchmark their impact on community perceptions. This has allowed us to identify opportunities and challenges that are likely to face the industry in the coming years and deliver an integrated strategy across media, stakeholders and the community.

Industry integrity communications



PROGRAM OBJECTIVE

KPIs

OUTCOMES

BENEFITS

FUTURE

Maintain high levels of community trust and pride in Australia's cattle industry

- Maintain consumer trust scores at 71%

- Trust scores maintained at high levels (new methodology makes direct comparison difficult)

- Increased community understanding, pride and trust in beef industry and production

- Continue activities at major shows, work with NFF on uptake of agriculture in schools and continue support for Farm Day nationally

Although we enjoy strong levels of community trust in Australia's beef industry, the lack of a strong foundation for that trust leaves the industry vulnerable. The industry integrity communications program aims to build a strong foundation of trust by building basic knowledge of, creating a human bond with and providing an experience of beef cattle production.

BUILDING BASIC KNOWLEDGE

We ran and participated in a number of activities to help build basic knowledge of beef cattle production within the urban community. We were the major participant in 'The Food Farm: Where does our food come from' pavilion at the Sydney Royal Easter Show, which featured live cattle, sheep and goats, displays of meat cuts and carcasses, and cooking demonstrations all under the one roof. Over 240,000 people visited the exhibition – an encouraging sign that families were interested in learning more about the origins of their food.

Survey results showed that 74% of respondents rated the beef industry highly, with a rating of 8+ out of 10, and 41% of visitors left with an improved opinion of the beef industry. We also participated in the major agricultural shows in Brisbane, Adelaide and Melbourne.

An important part of building knowledge is the inclusion of agriculture on the school curriculum. This year we worked with the National Farmers' Federation, industry bodies, government and educators to set up an independent body to facilitate agriculture in schools Australia-wide. A case study focusing on the beef industry's use of science and systems for global differentiation was included in the *Australian Financial Review's Business Case Studies* reaching up to 300,000 students Australia-wide.

PROVIDING EXPERIENCE

As part of Landcare Week in September 2006, we hosted 120 Sydneysiders for a day on a cattle property. The event succeeded in raising awareness of the cattle industry and demonstrating cattle producers' concern for their animals and the environment. Most importantly it received extensive media coverage estimated to have reached an audience of 5.6 million people.

We were also the primary sponsor of the inaugural national Farm Day on 26 May 2007. The event saw 181 city families visit 181 farms, all of whom stated they would recommend the experience to family and friends. Farm Day again attracted excellent media coverage, estimated to have reached an audience of 12 million people. Both events played a key role in maintaining consumer trust in our industry.

HUMAN BOND

Building empathy with the people behind our cattle industry is a major part of the industry integrity communications program. In 2006-07, we worked with the *Australian Women's Weekly* to find 'inspiring women of the land' and showcase their achievements. The promotion attracted over 70 nominations and generated media interest around the country. The inspiring stories of the five finalists were remarkable in different ways, leading to all five being named as winners.



FARM DAY HELPED BUILD CONSUMER TRUST IN OUR INDUSTRY BY PROVIDING CITY FAMILIES WITH THE CHANCE TO EXPERIENCE FARM LIFE

04 Whole-of-chain efficiency



“The South East Prime Lamb Young Achievers group has enjoyed the support of MLA to conduct on farm trials that has improved adoption of technology by our members. The MPD held this year by SEPLYA’s and MLA was a pivotal part of highlighting new technology in our region. We look forward to a bright future with the support MLA can give young producers, being the future of our industry.” Penny Roberts Craig

Young Guns – Penny Roberts Craig, Chris Rowe, Mark Buckett and Nathan Craig – Lucindale, South Australia

WHOLE-OF-CHAIN EFFICIENCY

- IMPROVING PRODUCTIVITY • ADOPTION AND CAPACITY
- SUPPLY CHAIN INITIATIVES • MARKET INFORMATION

Improving productivity

INVESTMENT

| | |
|-----------|---------|
| This year | \$14.5m |
| Last year | \$14.5m |

Our investments into research and development aim to boost the productivity and sustainability of the entire red meat supply chain. Our energies in this area are shaped by our *Livestock Production R&D Strategic Plan 2006-2011*, which was developed as a result of consultation with industry while aligning with the Australian Government’s national and rural research priorities. To avoid research duplication and ensure joint approaches to common problems we have teamed up with other research organisations, such as rural research and development corporations, cooperative research centres, state government departments of primary industry, the CSIRO and universities. We have also examined the social and political environment in which the industry will operate during the next five years.

NORTHERN BEEF

Increasing enterprise efficiency

Difficulties finding and keeping staff and increasing labour costs are important issues currently facing the pastoral industry.

In conjunction with Australian Wool Innovation, we are surveying over 1,000 employees to identify factors that motivate staff to join, remain with, or leave their employers throughout the Australian beef, sheep and pastoral wool industries. This research will identify cost-effective strategies for employers to better attract and retain labour, and guide investment in new retention strategies.

Businesses require staff to wear helmets when riding horses to comply with OH&S requirements. As a result there have been concerns that staff may be more at risk of heat stress during hotter times of the year. We have evaluated a range of safety helmets and found the best performing helmets do not increase rider risk of heat related illness or decrease cognitive function in hot working conditions. We are also supporting research to evaluate OH&S programs, particularly an Equine Risk Management program to assist employers manage the risks to staff working with horses.



AN EVALUATION OF SAFETY HELMETS FOUND THE BEST PERFORMING HELMETS DO NOT INCREASE RISK OF HEAT RELATED ILLNESS IN HOT CONDITIONS

The development of remote management systems that reduce labour costs and increase labour efficiency has also been a focus this year. Modular telemetry communication systems enable remote monitoring of trough and tank water levels, bore pump control, water medication, nutrient monitoring and rainfall data capture. Anecdotal evidence suggests that up to 10 hours a week is saved by using remote monitoring of water and 4–5 hours a week in maintenance.

Carrying capacity

We are working with industry through the Leucaena Network and researchers from the University of Queensland to further develop productive and sustainable leucaena grazing systems. With an aim to increase the current 150,000ha of the shrub forage legume to 500,000ha by 2017, we published *Leucaena: A guide to establishment and management*, which complements courses run by the Leucaena Network and the University of Queensland. Additionally, breeding to develop a leucaena hybrid resistant to psyllid insect attack continues. New research in 2007-08 will enable more accurate testing, identification and management of unique rumen bacteria essential for detoxifying harmful toxic by-products contained in leucaena, which may be responsible for sub-optimal animal performance.

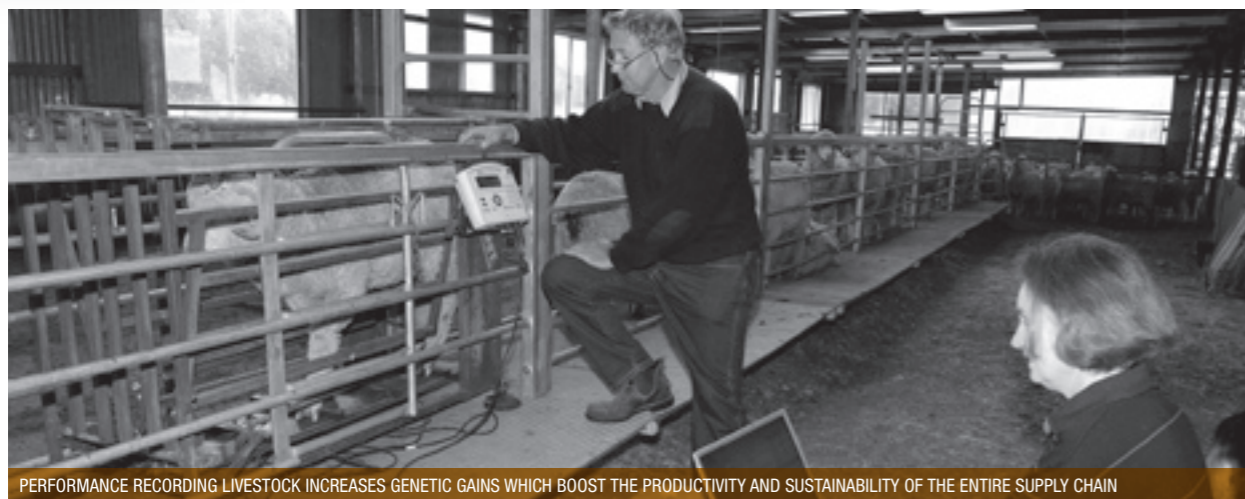
Cash cow

We launched a massive new research program to help recoup some of the estimated \$15 million that Australia’s northern cattle industry loses every year through reproductive losses. The four-year, \$2 million Northern Australian Beef Fertility Project – also known as ‘Cash Cow’ – will look at the factors that impact on cattle reproductive performance and provide solutions to help lift branding rates.



A NEW TOOL HAS BEEN DEVELOPED TO ASSESS NUTRIENT APPLICATIONS, ENABLING A FARM TO BE MAPPED FOR APPROPRIATE FERTILISER USE

04



PERFORMANCE RECORDING LIVESTOCK INCREASES GENETIC GAINS WHICH BOOST THE PRODUCTIVITY AND SUSTAINABILITY OF THE ENTIRE SUPPLY CHAIN

SOUTHERN BEEF

More beef from pastures

Since its launch in August 2004, More Beef from Pastures has delivered tools to around 11,000 producers for improved profitability and risk management. The extension performance is reported on page 40.

A number of new tools and information have been developed from our research programs and distributed to producers participating in the More Beef from Pastures program. These include CD ROM and downloadable versions of the Cost of Production Calculator, *Tips & Tools* to assist in the management of calf scours and a revised version of the Setting Directions module from the central resource.

Genetic boost to beef cattle

A major R&D program was established through the Cooperative Research Centre (CRC) for Beef Genetic Technologies, with projects focused on maternal herd productivity. These projects aim to gain an understanding of the effects of selection for improved carcass merit and feed efficiency on traits like days-to-calving and branding rate. The knowledge generated will be incorporated into BREEDPLAN, and will help breeders and producers better manage the trade-offs among fertility, growth rate, carcass merit and feed efficiency at both the animal and herd level.

Genetic progress in the seedstock sector continues to accelerate and is now averaging just on \$2 extra gross margin* per cow joined per year, delivering real benefits in improved profitability to beef producers. Four new markers for feed conversion efficiency were launched via licensee Catapult Genetics during the year resulting from our co-investments through the previous CRCs for beef.

SHEEP

Increasing genetic gain

Increasing genetic gain has been an important part of the success of the Australian sheep industry and we have been working with AWI and industry to continue this positive progress.

We are adding lambing ease and gestation length to the range of traits that breeders can select for using genetic breeding values. These new breeding values will allow breeders to better manage lamb survival. In addition, we included sire x flock effects for MERINOSELECT that will provide more reliable breeding values across environments in the Merino industry.

Despite the drought, Sheep Genetics has increased the number of performance recorded sheep on its databases. Terminal sire breeders using LAMBPLAN have been able to achieve a 7% average rate of gain which represents a genetic improvement in growth rate to 225 days of 1.1 kilograms or 230g in carcass weight of lambs produced, whilst at the same time fat depth was maintained and muscle depth increased. Merino Breeders using MERINOSELECT have been able to achieve a genetic gain of \$4 per ewe joined for the 7% Dual Purpose Index. This index includes improvements in both wool value and carcass weight.

Rebuilding the flock

Off the back of the drought, flock rebuilding will be critical to the success of the industry. Research completed this year indicated that mating ewe-lambs could be successful under specific conditions provided that they are managed to attain a mating weight of at least 45kg at seven months of age. This information was transformed into a new publication – *45 x 7 an informative guide* – providing producers with information on how they can manage ewe-lambs for reproductive success.

* Source: Alex McDonald (2006) Report for MLA "Genetic Benchmarking for the Australian Beef Industry"

PROGRAM OBJECTIVE

To improve industry's productivity, profitability and sustainability

KPIs

- Communicate the economic impact of endemic diseases
- Develop strategies to attract and retain staff in grazing businesses
- A new stunning technology to meet Halal, animal welfare and industry standards demonstrated

OUTCOMES

- The importance of managing animal health communicated and influenced priorities for future investment
- Over 1,000 employers, employees and trainers surveyed
- High frequency electrical (HFE) stunning equipment installed and operating in one Victorian processing plant

BENEFITS

- Identified areas for future research and the relative value of investment in on-farm disease management
- Information to improve staff retention in pastoral zones
- Strengthened market access by addressing animal welfare, religious slaughter (eg Halal) and BSE issues, while improving OH&S, cost efficiency and maintaining meat quality

FUTURE

- Continue investment in established priority areas to reduce economic impact of animal health issues
- Communicate recommendations to industry
- Further verify suitability of HFE and single pulse ultra-high current (SPUC) stunning as alternatives to mechanical stunning

GOATS

A series of new projects in the Going into Goats program have been undertaken to assist the development of the goat industry and improve productivity.

- The transfer of electrical stimulation technology developed for sheep and cattle abattoirs into goat abattoirs to increase the eating consistency of goatmeat.
- A comprehensive review of chemical usage in the goat industry and the parasite control options available to producers with recommendations and communication tools to support sustainable industry development.
- The registration of a goat-specific drench and the establishment of associated export slaughter intervals, through the MLA donor company program, for use on goats to control internal parasites.

Further progress has been achieved through the development of the *Goat Meat Industry Marketing Strategic Plan* in consultation with the Goat Meat Industry Marketing Taskforce and the revision of several popular publications including *Weed control using goats* and *Goat farming for the future*.

PASTURES

EverGraze

The principle of developing and delivering profitable, environmentally-sustainable livestock production systems was delivered this year through EverGraze. The Hamilton site, which had limited summer rainfall, returned a profit in a year similar to the worst case scenario under climate change predictions. In addition, this site demonstrated the ability of summer-active perennials to respond quickly after drought, reducing supplementary feed costs by \$1.04/head a week

(comparing best practice perennial ryegrass to a farming system with lucerne, ryegrass and tall fescue).

EverGraze was also successfully expanded in 2006-07 with AWI investment to develop three new research sites that will assist producers integrate native pasture systems with exotics to achieve the same dual goal of making a profit and reducing the environmental impacts of producing livestock.

Grain & Graze

The Grain & Graze project was launched three years ago to deliver profit and natural resource management improvements in the southern cereal zone. A unique aspect of this program is the national biodiversity project which identified some 270,000 invertebrates from 47 Grain & Graze research sites this year, as well as conducted surveys of vegetation and bird populations to determine the impact of on-farm management practices in the sheep-wheat zone on biodiversity.

Better fertiliser decisions

Improved decision making with nutrient applications can now be made as four national fertiliser companies and each state department of primary industry take advantage of the collation and analysis of the past 50 years of experimental work and fertiliser trials completed under the Better Fertiliser Decisions project. A producer tool has been developed to assess nutrient applications and the likely environmental impacts, enabling a farm to be mapped for appropriate nutrient use.

PROCESSING TECHNOLOGY

Alternative stunning

The alternative stunning research program has progressed key research areas – high frequency electrical (HFE) stunning and single pulse ultra-high current (SPUC) stunning – over the past year.

04

HFE stunning trials involving sheep have shown significant improvements in meat quality over traditional methods.

SPUC stunning of cattle showed the technology successfully causes a stun compatible with animal welfare requirements, as recognised by the University of Queensland's Animal Ethics Committee.

The program has also worked closely with the Meat Industry Training Advisory Council (MINTRAC) to update training manuals regarding pre-slaughter stunning in Australia. Several workshops were also conducted in conjunction with MINTRAC on animal welfare and electrical stunning of small stock.

Further verification of the commercial viability of SPUC and high frequency electrical stunning as alternatives to mechanical stunning will continue during 2007-08.

Automation

Increasing yields, labour saving and improved safety are key features of our automation program – a program that supports the development and implementation of robotic technologies in Australian processing plants.

The primal cutting system for smallstock developed by Scott Automation has been successfully installed, operated and demonstrated to industry at the CRF processing plant this year. It is estimated to reduce costs by \$0.5 per head from yield improvements and reduced labour.

Scott Automation's LEAP technology development continues to move ahead, with a new project to integrate the primal

cutting and hindquarter processing systems with x-ray visioning. This development maximises the synergies of the three modules to improve yields from both primal cutting and hindquarter boning as well as reduce labour requirements. It is anticipated a full scale demonstration boning room will be set up next year.

The semi-automated beef scribing technology developed by MAR is under final commissioning at Northern Co-operative Meat Company and will be operational in the third quarter of 2007. The technology allows just one person to manage the system which verifies the cuts to be made by the robots.

Underpinning the success of reliable automation alternatives are our visioning and sensing systems developed by Food Science Australia. Two applications – the automated sani vac and brisket shear for sheep – were piloted by processors as part of our plant-initiated projects program and plan to be demonstrated in early 2008.

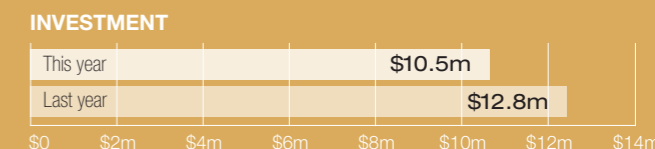
With demand for these technologies integral to their continued development, a key element of our automation program is demonstrating the relevance and efficiency of these technologies to industry.

We successfully engaged a number of Australian processors to take up automation technologies in plant and work with us to develop new ones. As a result of a technology tour to Europe, Australian Meat Holdings is about to embark on its first automation project, and WAMMCO and Gundagai Meats are engaged in preliminary evaluation projects.



THE PRIMAL CUTTING SYSTEM USED AT CRF PROCESSING PLANT IS REDUCING COSTS BY AN ESTIMATED \$0.5 PER HEAD

Adoption and capacity



| PROGRAM OBJECTIVE | KPIs | OUTCOMES | BENEFITS | FUTURE |
|--|---|--|--|--|
| Communicate and deliver tools and information from R&D outcomes, encouraging adoption by livestock producers, feedlotter and processors | <ul style="list-style-type: none"> 5% increase in uptake of MLA tools and information by producers 5% increase in producer participation in MLA learning activities 10% increase in number of processing companies participating in the Red Meat Industry Professional Development program | <ul style="list-style-type: none"> 2% increase in uptake of on-farm products and publications 17.5% of targeted livestock producers participated in MLA learning activities, a 36% increase over previous three years 13.3% increase in processing participants | <ul style="list-style-type: none"> Raised awareness of key profit and sustainability drivers Increased producer knowledge and management skills Attract, retain and nurture skilled employees to the industry | <ul style="list-style-type: none"> Launch of <i>Making more from sheep best practice manual</i> in conjunction with Australian Wool Innovation Ongoing delivery of producer learning activities for northern beef, southern beef and lamb/sheep producers Increase participation rates of companies and students by 20% |

WORKING SMARTER

The adoption of new technologies and processes delivered by our R&D investment is crucial for the long-term profitability and sustainability of Australia's meat and livestock industry. Our adoption and capacity program focuses on delivering efficiencies to both the on-farm and off-farm sectors.

INCREASING PRODUCER KNOWLEDGE

Our engagement with producers during 2006-07 delivered information to help them manage their livestock operations through the drought and to position them well for a fast recovery.

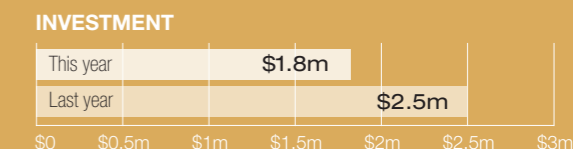
A drought resource directory was developed and mailed to over 35,000 MLA members and Elders and Landmark clients. The directory was also made available on the MLA website with links to our extensive range of *Tips & Tools*, events and other industry information and support resources.

Our quarterly on-farm magazines – *mlaPrograzier* and *FRONTIER* – increased distribution to 20,000 and 10,000 readers respectively and continued to provide key R&D information to producers throughout the year.

| | NEW PRODUCER RESOURCE | UPTAKE BY PRODUCERS | | NEW PRODUCER RESOURCE | UPTAKE BY PRODUCERS |
|--|---|--|--|--|---------------------|
| | More Beef from Pastures CD (Version 2) – an integrated reference containing the steps and tools required to implement improvements across the entire beef business | 8,998 | | Weed control using goats – assists in traditional weed control methods, providing efficient, sustainable pasture management | 696 |
| | A guide to best practice husbandry in beef cattle – branding, castration & dehorning – provides information relating to a number of alternatives for each procedure | 1,900 in first week of release to 30 June 2007 | | A producers' guide to production feeding for lamb growth – information on the key aspects of intensive lamb finishing backed by published evidence | 1,002 |
| | Leucaena – A guide to establishment and management – 20 years of research experience with the knowledge of many successful leucaena growers strikes a balance of theory and practicality | 435 | | Pasture health kit – a handy reference guide to achieving and maintaining healthy pastures | 1,721 |
| | | | | A range of new Tips & Tools – covering important issues such as management of pastures during drought, weeds, groundcover, soils and internal parasites | 30,367 |

04

Supply chain management



ATTENDING EVENTS

Over 60 MLA-initiated or partnered events were held across southern Australia, attracting approximately 6,000 producers. These events were consistently well rated by producers who attended, provided them with insights, decision-making tools and new perspectives on how to improve an enterprise.

These events included 33 Cost of Production workshops, which gave 760 southern producers a simple performance measure of their enterprise and ways to identify their key profit drivers.

For the northern beef industry, our new series of 'Beef-Up' forums held across Queensland, Northern Territory and the Kimberley/Pilbara attracted 820 producers who collectively run over one million cattle and manage over one million km² of pastoral land. These forums focused on how to make more money by improving reproductive performance and liveweight gain, as well as grazing land management and succession planning.

More than 700 producers attended two Meat Profit Days organised by MLA in conjunction with groups of local producers in Lucindale, South Australia and Alice Springs, Northern Territory.

These events, together with other MLA-funded producer learning activities such as EDGENetwork, Producer Research Support, Grain & Graze and Evergraze, directly engaged approximately 17,700 producers during the year.

While drought conditions can be a significant barrier to implementing change, an estimated 50–70% of producers who participated in these activities changed management practices as a result.

INCREASING ADOPTION OF R&D OFF-FARM

Our efforts to improve the uptake of new technologies in the processing sector gained momentum this year with three new technologies available as a result of our R&D program and a 5% increase in their adoption by processors.

An open day for 50 people at CRF Colac provided a good platform for demonstrating the new smallstock technology, addressing their issues of concern and barriers to adoption. We also participated in seminars on CT scanning, automation and bioactives, and facilitated e-learning modules on supervisor induction, refrigeration index training, managing your own work performance and diploma finance through MINTRAC.

The number of commercial products developed from R&D projects this year assisted uptake levels. Some of these included:

- electronic meat transfer certificates (eMTC) being implemented by three major processors who account for 30% of red meat processed in Australia
- the continued uptake of GS1 standards by the supply chain with 401 companies currently registered
- the installation of E-nose, an automated odour detection technology, at five abattoirs contributing to better management of odour
- distribution of a food safety resource kit to 280 quality assurance managers, of which 90% said they would make changes as a result
- the installation of Bladestop, a safety sensing system that prevents cutting injuries to band saw operators, in 20 abattoirs

FUTURE INDUSTRY LEADERS

In the spirit of building a more sustainable and profitable industry we facilitated a 56% increase in the number of companies throughout the chain participating in the Red Meat Industry Professional Development program, which aims to improve innovation culture and capability.

The program placed 29 undergraduates and 18 graduates at processors, service providers and feedlots this year, providing them with professional development and site-specific training with the aim of attracting their research and technical skills back into the red meat industry after they complete their studies.

PROGRAM OBJECTIVE

Assist the red meat industry achieve world leadership in supply chain management

KPIs

- eMTC procedure adopted by meat processors responsible for 25% of volume processed
- 100% of beef exporters are GS1 members enabling standardisation of barcoding and electronic messages
- Develop the Lamb Finishing Code of Practice and industry guidelines in consultation with industry

OUTCOMES

- eMTC launched in April 2007 and used on 30% of product
- 21 out of top 25 processors are GS1 members
- Literature review complete and outcomes communicated to industry

BENEFITS

- Saving of \$2.3m via reduced administration, increased security, improved product management and traceability
- Fewer rejections of Australian meat at US ports, improved traceability and management
- A scientific and fact-based guide to production feeding for lamb growth now available to producers

FUTURE

- Continue roll out of eMTC
- Drive adoption of GS1 standards
- Development of the Code and delivery of R&D into the area of livestock curfews

E-TECHNOLOGY

Australia has well established traceability and product integrity systems and we are working with red meat supply chains to further enhance them. Global standards for numbering, barcoding and eMessaging projects promise to reduce costs, save time and increase product security and traceability throughout the chain.

Electronic meat transfer certificate

We officially launched the electronic meat transfer certificate (eMTC) this year and continue to facilitate its uptake by three major processors who process 30% of Australia's red meat.

The introduction of the eMTC system is expected to save industry \$2.3m a year via reduced administration time, higher levels of security, increased ability to meet customer requirements and faster and higher levels of traceability*. The eMTC work is behind schedule due to AQIS delays; however, there is an extremely high level of interest from industry. Building on this industry interest, we will develop networks through MINTRAC training packages and work directly with system vendors and companies to increase uptake.

Eliminating port marks

Port-marking or lack of it continues to be the leading reason for rejection of Australian meat in the US. This problem has been exacerbated recently by the increase in Australian chilled meat being exported.

We are investigating the potential elimination of port marks driven by a joint steering committee formed by AMIC and AQIS. Progress has been slower than expected due to a delay in the formation of the committee, which has also delayed GS1 membership and traceability awareness.

To support the elimination of port marks and improve industry efficiencies, we have been working with industry for a number of years to standardise barcodes and electronic messaging

via the GS1 system. We aimed to achieve 100% voluntary membership of export beef processors for GS1; however, we only reached this target in Western Australia and South Australia, due to port mark project delays.

The Australian Meat Industry and Language Standards Committee has endorsed our guide to information standards as the solution for the Australian red meat industry to adopt for numbering, barcoding and electronic messaging.

LAMB FINISHING

Lamb finishing has formed a major component of on-farm activities in the supply chain management program with the completion of the *Literature review into best practice for production feeding of lambs*. This final report provides guidance for future R&D investment and fuelled the development of industry guidelines for effective on-farm implementation – *A producer's guide to production feeding for lamb growth*. A code of practice for lamb finishing will ultimately be developed.

CRC COLLABORATION

Next year we will continue our interaction with the Cooperative Research Centres (CRCs) for beef and sheep, through four supply chain trials for the commercialisation of current CRC technologies related to the implementation of yield measurement technologies and practices in the supply chain.

* Source: AQIS, MLA reports



THE RED MEAT INDUSTRY PROFESSIONAL DEVELOPMENT PROGRAM IS DESIGNED TO ATTRACT, RETAIN AND NURTURE SKILLED EMPLOYEES TO THE INDUSTRY

04 Market information



PROGRAM OBJECTIVE

KPIs

OUTCOMES

BENEFITS

FUTURE

Provide effective, targeted market information

- Meet service standards for delivering NLRS reports and publications
- Maintain high subscriber approval for flagship publications
- Continued high use of market information online

- Achieved ISO certification for quality management system
- More than 90% of subscribers consider MLA service 'important' to their business
- Important local and global market news online within 24 hours and 25,000 online visitors per month (up 44%)

- Better farm and supply chain production and marketing decisions
- Market transparency and analysis, improving market operation and stability
- Better targeting and evaluation of industry programs

- Tailored and targeted versions of *Meat & Livestock Weekly*
- Launch new research papers with in-depth analyses of industry issues and markets
- Develop closer working relationships with market intermediaries, particularly stock agents

MARKET INFORMATION

Over the past year, the factors driving markets were again those which we are least able to predict – drought, the A\$ and changes to animal disease trade barriers. This has made our task of keeping industry informed of developments and their likely impacts even more demanding and vital.

The Australian cattle and sheep industry projections attracted an unprecedented level of interest from media, industry, government and agribusiness providing a valuable basis for industry plans and market access initiatives.

Having upgraded the information and data foundations in previous years, we turned our focus to improving the analytical content of our work, and expanding our online services.

Subscribers to our online market news service more than doubled this year to over 3,500 clients, and overseas news agencies are now confident of picking up timely facts and interpretations of major meat market developments around the globe.

Our analytical work on key competitors and threats was also boosted, with a major profile of Brazil, the first competitive intelligence project. Other major competitors continued to be monitored with market brief reports delivered on the US, Argentina and Uruguay.

We also took a step back this year to question our role in the market information arena. We engaged an independent agency to venture their objective assessment of our long term direction. There was a strong positive assessment from current clients, but concerns that we have not reached anywhere near our potential impact, particularly with MLA members. This research has helped form our activities for next year which include more tailored services with a revamped *Meat & Livestock Weekly* and research papers.

PRICE RISK MANAGEMENT

Our price risk management program assisted in the prolific development and interest in cattle price risk management initiatives, including over-the-counter products from the Commonwealth Bank, Landmark and Elders. A standard cattle forward contract and trading terms and conditions was developed to give buyers and sellers confidence to enter into forward contracts – a vital step in developing a risk management culture in the industry.

Agreement was reached with the Sydney Futures Exchange to continue the MLA/SFE Cattle Futures contract for a further three years. The Cattle Futures Contract has been instrumental in giving players the confidence to launch other risk management products. However, trading in the contract was again disappointing with just a 15% lift this financial year with 1,700 completed trades.

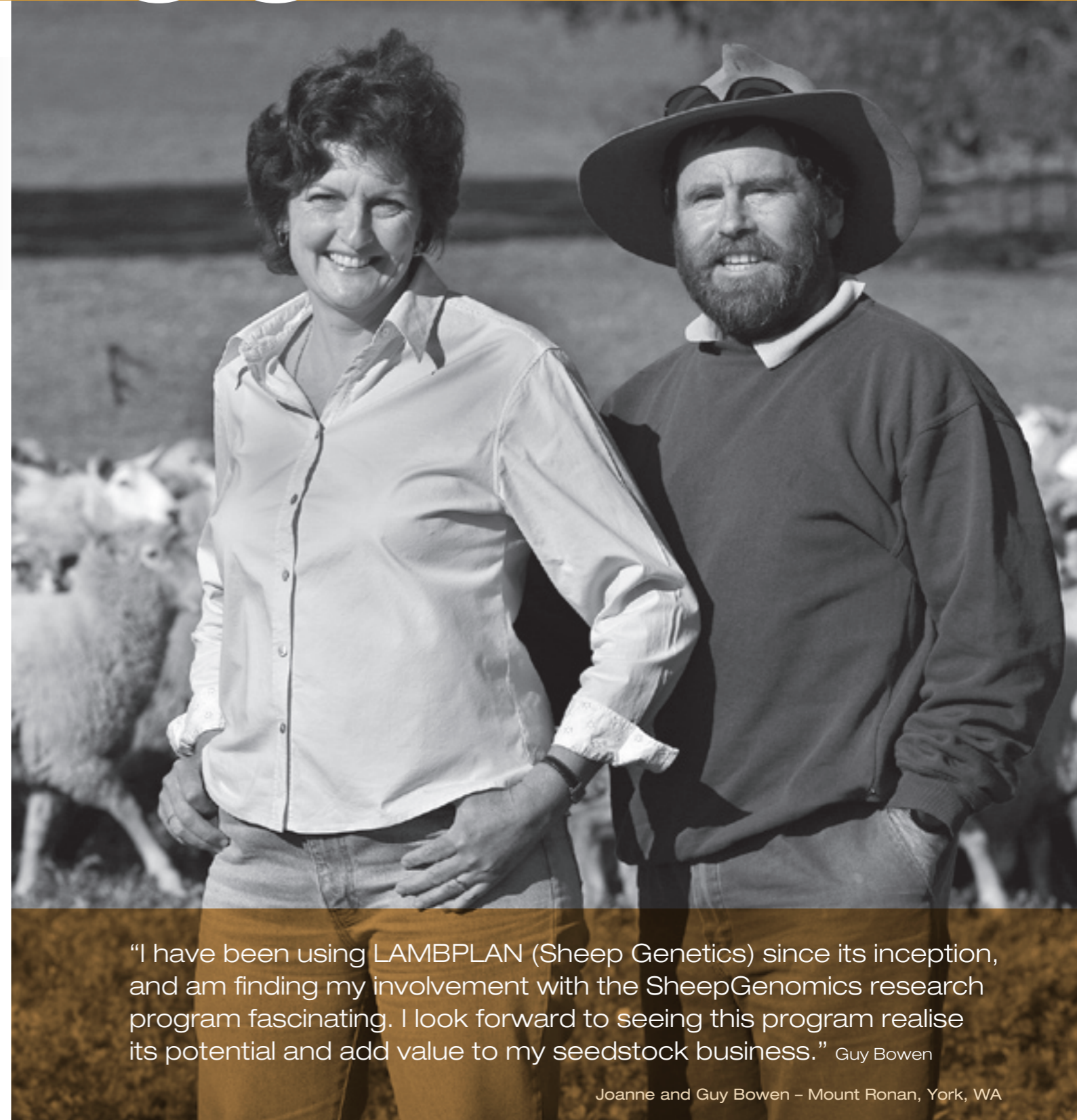
NATIONAL LIVESTOCK REPORTING SERVICE

We have continued to grow subscriptions to our regular market information service with over 125,000 emails and 30,000 faxes sent to subscribers. In addition, we boosted our web service with daily livestock market alerts.

A big challenge for the year was attaining ISO certification for our Quality Management System (QMS), which is used to underpin the delivery of accurate market reporting and analysis. NLRS achieved certification in August 2006.

The new NLRS database, Data Capture and Reporting Service (DCRS), which has been in construction since late 2003, was made fully operational in June 2007. DCRS integrates all the data collection, report generation and report dissemination for NLRS.

05 Strategic research and development



“I have been using LAMBPLAN (Sheep Genetics) since its inception, and am finding my involvement with the SheepGenomics research program fascinating. I look forward to seeing this program realise its potential and add value to my seedstock business.” Guy Bowen

Joanne and Guy Bowen – Mount Ronan, York, WA

05 Strategic R&D



PROGRAM OBJECTIVE

Develop basic and emerging technologies to improve industry productivity, profitability and sustainability

KPIs

- Two sheep gene markers for increased muscling commercialised
- Develop molecular tests for six soil-borne organisms and two plant roots for field evaluation
- One commercial prototype of dose-controlled electrical stimulation operating in a beef and sheepmeat processing plant

OUTCOMES

- Two new markers being validated against existing commercial markers and new targets identified
- Ten molecular assays in field evaluation trials
- Smart Stimulation installed in beef and sheep plants

BENEFITS

- The availability of simple tests for carriers of these muscling genes will accelerate genetic progress
- Accelerated studies of soil biology and plant root systems by researchers
- Reduced eating quality variations, labour and costs to processors

FUTURE

- Comprehensive DNA marker discovery and estimate of the influence on production traits
- Assess impacts of different management treatments using DNA assays
- Evaluate the potential of Smart Stimulation to predict final pH and tenderness

NEW TECHNOLOGIES FOR ON-FARM APPLICATION

The transition of DNA technologies from the laboratory into practical tools for continued innovation in the livestock industries is a common theme this year in our strategic science program, which covers SheepGenomics, beef genetic technologies, pastures and soil biology. Our overarching strategy harvests global advances in genomic science and technology, and harnesses them in projects targeting long-standing or intractable problems in the red meat industries such as net feed intake for cattle, parasite resistance in sheep and drought tolerance in pasture plants.

Accelerating the current rates of genetic improvement is a goal shared by both the cattle and sheepmeat industries, and DNA marker technologies are being developed for each. This year MLA and other co-investors in the previous CRCs for beef licensed Catapult Genetics to commercialise four beef markers for feed conversion efficiency, and our SheepGenomics program evaluated two sheep markers in commercial flocks for increased muscling in preparation for commercialisation and use in breeding value calculations.

Rapid discovery of markers (apart from the new novel markers in the sheep industry, over 100 potential markers for beef were discovered this year), validation of marker performance claims, and integration of markers with existing breed improvement



DR ALAN MCKAY (SARDI) EXAMINING RESULTS OF PASTURE SOIL DNA ASSAYS TO HELP DEVELOP PRACTICAL TOOLS FOR LIVESTOCK INDUSTRIES

Image: Ian Riley

approaches are challenges facing each industry. By working collaboratively with the applied research community, we are achieving synergies between the investments made with beef producer levies and those made using sheep producer levies.

Development of the new SNP chip technological platform (next generation DNA markers) will allow both industries to move beyond small numbers of markers to groups of a hundred or more (up to 60,000 are anticipated for the sheep industry next year), and achieve much greater certainty and timeliness for breeding decisions. Research, both within and outside MLA funded programs, is developing a new type of breeding value which incorporates all the SNP chip information into a breeding value system like the BREEDPLAN estimated breeding values.

MEAT QUALITY SCIENCE

Recent approaches, such as electrical stimulation technologies, have improved the variability in eating quality of sheepmeat by 200% and this year we have further improved both sheepmeat and beef via more finely tuned processing*.

Accurate online measurement coupled with dose controlled interventions has now been demonstrated for the first time using new Smart Stimulation technology on individual beef and lamb carcasses. This reduces eating quality variations across entire production batches by 10%. Smart Stimulation now also provides accurate, early predication of either cold-shortened or heat-toughened beef, corrects this failure and aligns the product to comply with MSA via the electrical stimulation intervention.

The next phase will be to further develop technology to measure additional eating quality traits that more accurately define eating quality and deliver this precisely defined product to the market.

* Source: Sheepmeat eating quality research (2005)

06 Other initiatives



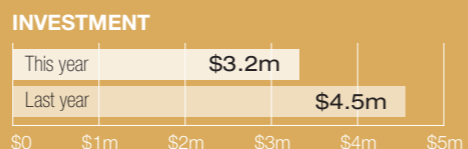
“Industry investment in the development of an innovative culture is vital and it is now beginning to pay dividends in the way we manage change within the red meat industry.”

Jack Barclay – CRF Colac, Colac, Victoria

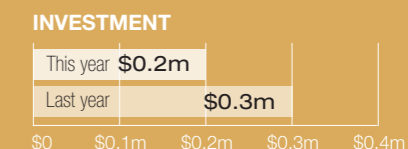
OTHER INITIATIVES

- CORPORATE COMMUNICATION • LIVESTOCK EXPORT STANDARDS
- RESEARCH AND DEVELOPMENT PARTNERSHIPS • CORPORATE SERVICES

06 Corporate communications



Livestock export standards



PROGRAM OBJECTIVE

KPIs

OUTCOMES

BENEFITS

FUTURE

Increase the awareness and value of MLA activities

- Increase MLA membership to 40,000
- 95% members aware of MLA's role in industry
- 95% members value MLA

- MLA membership at 30 June 43,401
- 98% members aware of MLA activities
- 95% members value MLA

- Over 43,000 levy payers directly engaged with MLA
- Industry informed of opportunities created from levies investment
- Confidence in levies investment

- Continue to encourage uptake of MLA membership
- New initiatives to engage producers with information and services produced by MLA such as improved online media centre and DVD

PROGRAM OBJECTIVE

KPIs

OUTCOMES

BENEFITS

FUTURE

Underpin a sustainable livestock export trade with risk management and quality assurance

- Average cattle mortalities under 0.1% and average sheep mortalities under 1.0%
- Risk management software programs and management tools in place in 50% of active exporters

- Cattle mortality rate at 0.18% and sheep mortality rate at 0.9%
- More than 50% exporters have software and risk management tools in place

- Build community trust in good welfare practices
- Standards and compliance systems have stabilised with industry/AQIS disputes declining

- Streamline compliance to further reduce costs
- Introduce risk management QA systems to industry

Our communication effort endeavours to ensure a clear connection exists between levy payers who are aware of our activities funded by their levies and the value they place on them. Our strategy has three simple components: to create awareness; demonstrate relevance and value; and proactively engage members in our activities. These strategies are pursued via four main communication channels: media, online, publications and events.

CREATING AWARENESS

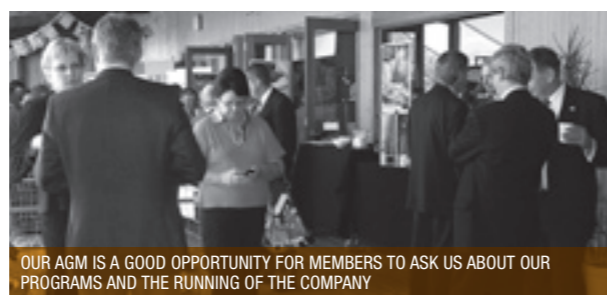
MLA membership is free to any red meat and livestock producer who pays transaction levies and we continued to actively encourage uptake of membership this year through a targeted membership drive. As a result we increased membership from 39,086 to 43,401.

Our call centre is an integral mechanism for producers to contact MLA staff or request information. This year we fielded over 10,000 calls seeking further information on MLA programs, and fulfilled publication orders for over 2,000 members.

We built on this portfolio of information with a proactive presence in the media, not only to create awareness about the company's programs, but to uphold the reputation and integrity of the red meat and livestock industry in the eyes of the community. A focus this year was clearly communicating to beef producers how their increased cattle levies were spent in domestic and international markets with over 100 articles appearing in radio and print media.

The continued improvement of the MLA website and online communications has been given high priority and as a result site visitors increased to almost 25,000 a month. Significant investment will be made in the coming year to improve the usability and relevance of content on the site to ensure visits continue to grow and all stakeholders can access pertinent information in a timely manner.

Publications remain a core channel for our communication and *feedback* magazine remains the most recognised source of information on our activities by members with 98% readership.



OUR AGM IS A GOOD OPPORTUNITY FOR MEMBERS TO ASK US ABOUT OUR PROGRAMS AND THE RUNNING OF THE COMPANY

DEMONSTRATING RELEVANCE AND VALUE

Ensuring members are provided with appropriate information surrounding the corporate governance of the company is critical. Recognising MLA's efforts in this area, last year's annual report once again received a Silver Award in the Australasian Reporting Awards.

Our annual general meeting last year was held in Adelaide with a record level of members taking up their voting entitlements. Over 200 producers attended the day in person despite drought and fires in South Australia.

PROACTIVELY ENGAGING

Practically-focused events provide face-to-face opportunities for producers to interact with those who are responsible for spending their R&D and marketing investment.

Throughout the year MLA conducted over 100 separate events across the country reaching in excess of 10,000 livestock producers.

Two meat profit days – Alice Springs and Lucindale – this year exposed over 700 producers to targeted information on the latest in marketing, research and development.

Ensuring young producers have access to industry tools and information in a format relevant to them, we have embarked on a program targeting younger producers and the farm businesses they are a part of, to ensure our programs and communication tools remain relevant to the producer levy payers of the future.

The improvements industry has made to operating procedures and the day-to-day care provided to animals during transport has enabled it to remain well below the regulatory benchmark set by the Australian Government of less than 1% mortality for cattle and less than 2% mortality for sheep and goats, and below the industry standard of 0.2% for cattle and 1% for sheep.

The overall mortality rate for sheep transported to all destinations in 2006 was 0.9% for the 4.15 million sheep exported. This is a decrease from 0.95% in 2005.

The overall mortality rate for cattle transported from Australia in 2006 was 0.18% of the 618,645 cattle exported. This represents a slight increase from 0.14% in 2005, attributed to one particular shipment in 2006. This shipment was investigated by AQIS and remedial measures have been implemented.

The overall mortality rate was 0.49% among the 25,353 goats exported from Australia in 2006, a decline from the 0.77% in 2005.

The reportable mortality incidents of 2006 have been investigated by AQIS, as per the regulatory process. Identified causes and actions to prevent recurrence are listed on the AQIS website.



STOCKMAN TRAINING COURSES ASSIST INDUSTRY IN MEETING ALL STANDARDS AND CODES OF PRACTICE FOR LIVESTOCK EXPORTS

NEW SOFTWARE LAUNCHED

In October 2006, the Export Cattle Trace version 2.1 software was launched. Export Cattle Trace is an entry level NLIS-based program designed to enable exporters to maintain the identification of cattle through a complex protocol program where laboratory test results and treatments need to be recorded and tracked to individual animals.

R&D PROJECTS

A presentation to RSPCA on the livestock export R&D program was a step towards better dialogue with both state and federal levels of the RSPCA. The presentation included information on:

- Segregation of horned and non horned livestock
- Pregnancy testing of immature animals
- The provision of discretion for AQIS decision making in a number of sections of the standards
- The banning of animals in the holds of aircraft
- Vaccination of cattle for bovine respiratory disease
- Bovine Johne's disease testing by Korean quarantine officials
- Ventilation capability for aircraft used in Australia

TRAINING NEEDS ADDRESSED

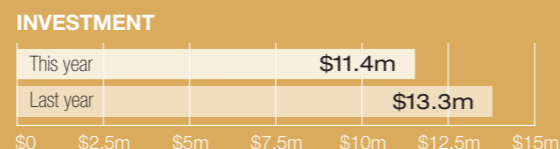
In establishing the training needs for industry, we examined all standards and codes of practice to define training and competency requirements. A gap analysis was completed which now gives the livestock export program the opportunity to deliver relevant training courses to all sectors of the industry next year. Two stockman training courses were held and a livestock export stevedore course was evaluated.

The industry emergency management plan was re-written with a better balance of operational processes versus communication. Audits and trials are scheduled for 2007-08.

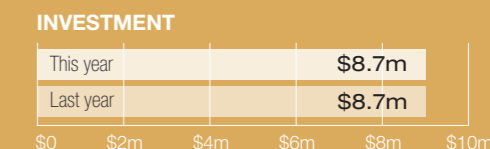
Exporter risk management quality assurance was deferred pending the resolution of issues with regulations and standards, which have since been dealt with. The project is expected to begin in 2007-08.



R&D partnerships



Corporate services



PROGRAM OBJECTIVE

KPIs

OUTCOMES

BENEFITS

FUTURE

Increase industry's R&D investment, innovation culture and capability

- Implement a balanced portfolio of R&D partnerships across industry
- Facilitate adoption and uptake of partnership project outcomes
- Support an innovation culture and capability

- 61 projects approved valued at \$24.2m and involving all sectors of the industry
- Electrical stimulation units, Pelt-o-matics, BladeStop and Lipimax used by industry
- 29 undergraduates and 18 graduates placed in commercial operations

- R&D partnerships bridge the adoption capability gap in all sectors of the industry
- Continued research without relying on industry levy funds
- Opportunities in the red meat industry recognised by upcoming professionals

- Further investment in tailored collaborative innovation strategies
- Develop innovative products, processes and new business models

PROGRAM OBJECTIVE

KPIs

OUTCOMES

BENEFITS

FUTURE

Provide support services and accurate, timely and meaningful information

- Develop a comprehensive human resources strategy
- Clean audit report
- Successful 'go live' of new enterprise reporting system (SAP)

- Components of a human resources strategy developed
- Achieved a clean audit
- Successful first phase implementation of SAP

- Attract and retain skilled staff in the company
- Compliance with best practice policies and procedures
- Greater transparency, financial cost control and efficient administration

- Continue process improvement driven by technology and phase II of the enterprise system (SAP)
- Initiate a company-wide benchmarking process
- Continue the review and development of human resource strategies

A DIVERSE PORTFOLIO

Our fully-owned subsidiary, MLA Donor Company Limited (MDC), provides a vehicle for attracting commercial investment in innovation from individual enterprises. Since its inception in 1999, the R&D partnership program has approved 340 projects with a total budget of \$142 million.

The program has continued to evolve with support and engagement from all sectors with 61 new R&D partnership projects approved amounting to an investment of \$24m this year. The portfolio of projects is diverse:

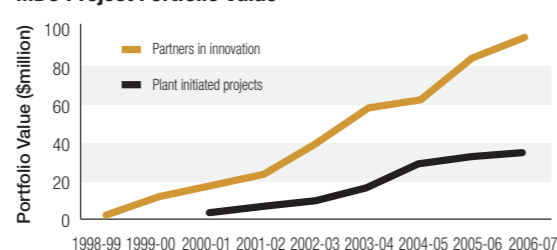
- smart trace – a real time cold chain tracking system
- RTL leap boning technology (see page 38 for more details)
- a retail technology system – providing retail butchers with the latest point-of-sale technology to manage their business and maximise red meat sales; and providing MLA with national real time sales data via our retail portal
- the tenderometer – an MLA and Meat & Wool New Zealand collaboration bringing together advanced electrical stimulation and G2, which objectively measures tenderness and other eating quality attributes of the cooked product

Uptake of proven commercialisation projects has been successful, including: the installation of electrical stimulation technology to reduce variability in eating quality in 10 plants; two additional Pelt-o-matics installed in Australian plants; 40 outlets using our retail technology; and the bovine lipoprotein bioactive Lipimax used as a growth medium by pharmaceutical companies, now successfully exported in a \$100m global market.

It is anticipated that collaborative innovation strategies will become the dominant model for future MDC activity. This approach has been trialled over the past three years and is effective in:

- building relationships and gaining enterprise commitment
- building capability
- enabling more effective engagement with industry by MLA program managers

MDC Project Portfolio Value



There is no one-size-fits-all model, rather a tailored approach over three to five years that builds on the development of innovative products, processes and new business models.

The overall objectives of the program continue to be:

1. To significantly increase the level of enterprise investment in innovation in the Australian red meat industry.
2. To significantly enhance the outcomes of commercially focussed innovation thereby ensuring quantifiable commercial returns to individual enterprises and ultimately to the industry overall.
3. To significantly increase the number of successful commercialisations thereby adding to the quantum of innovations available to the industry.
4. To achieve commercial returns for MDC [where appropriate], which can be reinvested in programs and projects that grow the level of profitable innovation within the industry.
5. To undertake research and development with individual enterprises to increase the innovation capability of the Australian red meat Industry.

SUPPORTING AN INNOVATION CULTURE

The development of an innovation culture and capability for the industry is promoted and supported through several complementary initiatives using the MDC funding mechanism. See page 40 under adoption and capacity for more information.

Expenditure incurred in providing corporate services to the company totalled \$8.7 million for 2006-07, in line with last year. This figure includes foreign exchange gain of \$1.6 million for 2006-07, compared with \$1.4 million in 2005-06.

HUMAN RESOURCES

As at June 2007, MLA employed 241 staff: 209 in Australia and 32 overseas, with 66% from a rural background.

Delivering world class services and solutions demands excellence in knowledge, skills and application. Talent management has been a key focus throughout 2006-07 with many of our staff attending short courses and receiving tertiary study support to help improve their skills, knowledge and enhance job performance and satisfaction.

Enhancements to our Partners in Achievement Review system (PAR) allow managers and staff to agree each year on a formal performance plan, designed to deliver the business plans of MLA and to provide for the career development of our staff.

Several components of a comprehensive human resources strategy have been formed following focus groups with staff to identify key issues affecting them. In response, we have put in place succession planning and talent management.

Voluntary employee turnover was 19–20% this year, attributed to a highly competitive job market and employees seeking further career advancement opportunities, many within agribusiness. A salary benchmarking survey was also conducted to compare MLA with the current employment market and we are looking to address any issues in this area in the coming year.

The health and wellbeing of our staff is of paramount concern, and we are pleased to report that there were no work-caused lost-time injuries.

RISK MANAGEMENT

A risk assessment profile for MLA was completed by accountancy firm Deloitte Touche Tohmatsu, and a recommendation was made that we develop and implement an internal audit program over the next two years.

The internal handling of levies and voting entitlements was reviewed this year by Ernst & Young, and no exceptions from the agreed procedures were identified.

We rolled out a Trade Practices program including training to create awareness of employee obligations.

SAP – NEW ENTERPRISE SYSTEM

In 2006-07, we successfully launched SAP, our new information technology system. SAP provides a more efficient financial management platform, with the potential to become a powerful integrated business intelligence warehouse in the future. The system offers a greater capacity to assist in controlling our programs and ensure we are an administratively efficient company.

EVALUATING OUR WORK

An important part of our work is to ensure that our programs are meeting their stated objectives and adding value to the industry. A new program of work commenced this year to independently evaluate how our programs are performing against stated measures. The Centre for International Economics developed an evaluation framework to measure the success of our work and also where we fell short. This year, three of our programs were assessed – market access, eating quality and food safety.

CORPORATE GOVERNANCE



THE BOARD (LEFT TO RIGHT) PETER TREFORT, WAYNE JACKSON, JAY SIMMS, DON HEATLEY (CHAIRMAN), IAN WATSON, PETER MILLIKEN (FRONT), PAUL TROJA (BACK), BERNIE BINDON, PETER BOYDEN, DAVID PALMER (MANAGING DIRECTOR) AND CHRIS HUDSON.

BOARD OF DIRECTORS

Our board of directors has the responsibility of ensuring that MLA operates effectively and stakeholder and industry value is maximised. It is responsible for MLA's:

- strategic direction
- financial management
- performance against plans
- compliance with legal requirements
- activities aligning with the industry's interests

To make sure the board is equipped to meet its responsibilities, a range of varying and complementary skills are sought in the directors selected for endorsement. Our directors for this year bring together a range of skills, with particular expertise as highlighted on the following page.

Directors' report

The Board of Directors of Meat & Livestock Australia Limited (MLA) has pleasure in submitting its report in respect of the financial year ended 30 June 2007.

DIRECTORS

The names and details of the company's directors in office during the financial year and until the date of this report are as follows. All directors were in office for the entire year unless otherwise stated.

Names, qualifications, experience and special responsibilities

ARTHUR MACEDON (DON) HEATLEY (Chairman)

Director since 1998

Mr Heatley is a Queensland beef producer and a past member of the Cattle Council of Australia. He operates cattle breeding and fattening properties in North Queensland. His production focus is the US and Japanese beef markets and the live cattle export trade. Mr Heatley is chairman of the Selection Committee.

DAVID WILLIAM PALMER (Managing director)

Director since 2006

Prior to becoming managing director, Mr Palmer was MLA's regional manager for North America and has held several positions with both MLA and its predecessor organisation, Australian Meat & Live-stock Corporation. Previously he was executive director of the Cattle Council of Australia. Mr Palmer comes from a livestock production background. Mr Palmer is a director of MLA Donor Company Limited.

BERNARD (BERNIE) MICHAEL BINDON

BRur Sc MRur Sc DRur (NE) PhD (Syd) FASAP FAAABG

Director since 2006

Professor Bindon was the chief executive officer of the Cattle and Beef CRC from 1993 until 2005 and prior to this spent 31 years in various senior positions with CSIRO livestock research. He has been recognised for his contribution to the beef industry through the Beef Improvement Association's Howard Yelland Award (2000) and the Rural Press/Rabobank "Beef Achiever of the Year Award" (2005). Professor Bindon is a member of the Audit Committee.

PETER RODERICK BOYDEN BSc (Maths)

Director since 2005

Mr Boyden is managing director of Boyden & Associates, a business mentoring, planning and strategic development consultancy. Previously Mr Boyden was the managing director of Unilever Australasia Foods, executive director of the Australian Food and Grocery Council, and marketing director for Unilever Australasia. He is a director of Foods Standards Australia New Zealand and Stuart Alexander Pty Ltd. Mr Boyden is a member of the Selection and Remuneration committees.

CHRISTOPHER BURGOYNE HUDSON

BSc (Hons) MSc PhD FTSE FAIFST FAFST

Director since 2000

Professor Hudson is a director of Food Science Australia and Nu-Mega Ingredients Pty. Limited. He is chairman of the Australian Food Safety Centre's advisory board. Professor Hudson holds visiting professorial

appointments at the Universities of Queensland and Wollongong. He is a past president of the Australian Institute of Food Science and Technology. Professor Hudson is a director of MLA Donor Company Limited and a member of the Remuneration Committee.

WAYNE ROBERT JACKSON BEc FCPA, FAICD

Director since 2002

Mr Jackson is chairman of Minter Ellison Lawyers (SA/NT). Previously he was chief executive officer and commissioner of the Australian Football League, managing director of SA Brewery Ltd and Thomas Hardy & Sons Pty Limited and executive director of BRL Hardy Limited. Mr Jackson also produces vealers and prime lambs on his property at Willalooka, South Australia. He is a member of the South Australian Economic Development Board and the South Australian Lotteries Commission. Mr Jackson is chairman of the Remuneration Committee and a member of the Audit Committee.

PETER ROBERT MILLIKEN BSc (Ag)

Director since 2001

Mr Milliken is a lamb producer at Hay, NSW. He participated in the Australian Rural Leadership Program and was active in forming EDGenetwork, a producer training program. Mr Milliken is a director of MLA Donor Company Limited and chairman of the Membership Committee.

JOHN (JAY) FIELD SIMMS

BAG SC (LIVESTOCK PRODUCTION)

Director since 2005

Mr Simms owns and manages a cattle property in north-west Queensland. He currently represents MLA on the Northern Beef Production Industry Committee and the North Australia Beef Research Council. Previously he was the chair of the West Queensland Beef Research Committee, he owned and operated export yards in Broome, WA, as well as grazing stock for live export. Mr Simms is a member of the Membership Committee.

PETER JAMES TREFORT

Director since 2003

Mr Trefort manages his family's property at Narrogin in Western Australia. He is a director of Hillside Meats, Elderstone Nominees Pty Ltd and WA Q Lamb, and is a member of WA Agricultural College Combined Advisory Councils. Mr Trefort is a director of AUS-MEAT Limited and a member of the Membership Committee.

PAUL ANTHONY TROJA

Director since 2003

Mr Troja is general manager and a director of Rockdale Beef Pty Limited Australia. Previously he held various roles in production, marketing and industry administration for the Angliss Group and the Australian Meat & Livestock Corporation (AMLC). Mr Troja is Chairman of the Audit Committee.

IAN DOUGLAS STUART WATSON

Director since 1998

Mr Watson was previously a seedstock and commercial sheep and cattle producer in Victoria and NSW. He consults to three leading NSW pastoral companies. In 2003, he received the Howard Yelland Award for his contribution to the beef industry. Mr Watson is a member of the Selection Committee.

Directors' report

DIRECTORS RETIRED OR RESIGNED DURING THE YEAR



DR DIANA GWENDOLINE DAY

BA(Hons), Dip Ed, PhD FAICD

Retired 22 November 2006

Dr Day is Associate Professor, Academic Development at the University of Sydney. Previously, she researched, consulted and developed policy in aspects of agri-business, natural and water resources and environmental planning. Dr Day was a director of MLA Donor Company Limited.

COMPANY SECRETARY

OLE ELSAESSER BComm, CICA, ACA, GAICD

Resigned July 2006



RACHEL DEBECK BA LLB (HONS)

Appointed July 2006

Ms Debeck has experience in banking and finance, corporate and commercial law. Prior to joining MLA, Ms Debeck was a legal secondee to MLA from Banki Haddock Fiora Lawyers. Prior to joining Banki Haddock Fiora, Ms Debeck was a lawyer at Mallesons Stephen Jaques, a leading international commercial law firm. Ms Debeck is the company secretary and legal counsel.



LAURIE ROBINSON CPA

Appointed October 2006

Mr Robinson brings extensive experience in financial and corporate management to MLA. Previously he worked as finance director in a publicly listed photographic company and in the oil industry, both in Australia and overseas, before joining Dairy Farmers as chief financial officer, and recently as their senior adviser. Mr Robinson is the general manager for corporate services and the company secretary.

CORPORATE GOVERNANCE STATEMENT

Our corporate governance provides a framework within which:

- the board of directors is accountable for the operations and performance of the company
- the risks of the company are identified and managed
- our long established values and behaviour underpin the way we do business

Our corporate governance practices are based on the Australian Stock Exchange's Principles of Good Corporate Governance and Best Practice Recommendations (ASX Principles). As an unlisted public company, MLA is not required to report on the ASX Principles; however the board considers that the ASX Principles provide valuable guidance for optimising corporate governance.

1. Laying a solid foundation for management

The board is responsible to members, government and other stakeholders for the operations, performance and governance of the company.

The board's functions and key responsibilities are set out in the Board Charter and the Charters of each board committee. These charters are available on our website. The roles and responsibilities of management have been established through formal delegations of authority.

Following appointment to the board, each director is provided with a formal letter of appointment that outlines the scope of their role and key responsibilities and expectations.

2. Structuring the board to add value

The company's constitution provides for a maximum of 11 directors. We currently have 11 directors with only the managing director being a member of management. The Chairman is elected by the board and is an independent non-executive director.

A board selection committee, comprising three producers elected by members, three representatives appointed by peak councils and three company board members, endorse candidates for election to the board based on skills, experience and industry knowledge. The skills and experience of each director are outlined on page 51.

The responsibilities and structure of the Selection Committee are set out in the company's constitution.

The Board Charter encourages directors who are members of the Selection Committee to endorse independent candidates. All Selection Committee members are advised of the importance of nominating independent directors and are advised of the ASX Principles in this regard.

Each year directors are evaluated to assess their performance, skills and independence, as set out in the ASX Principles. The evaluation also assists the Selection Committee to identify suitable board candidates. Directors may obtain independent professional advice at the company's expense on matters arising in the course of their board and committee duties, after obtaining the Chairman's approval.

3. Promoting ethical and responsible decision making

The board has established a code of business conduct and ethics, which embodies the company's values and provides clear guidelines to ensure confidence is maintained in the company's integrity.

Key elements of the code include:

- acting with openness, integrity and fairness
- protecting our business and using our assets appropriately
- protecting confidential information
- ensuring we act responsibly with regard to individuals
- acting responsibly in relation to safety, health and the environment
- avoiding conflicts of interest
- acting responsibly with respect to members, stakeholders, customers, suppliers, competitors, the community and others

All employees are required to confirm their knowledge of, and compliance with, the code on an annual basis. A copy of the *Code of business conduct and ethics* is available on our website.

4. Safeguarding integrity in financial reporting

Our Audit Committee operates under a Charter approved by the board and is comprised of three non-executive directors. The Audit Committee assists the board in relation to:

- financial reporting
- internal control structure
- risk management
- appointing, assessing, ensuring the independence of external auditors
- internal audit activities
- complaints in relation to controls

The managing director and the chief financial officer have made a representation to the board that the financial reports represent a true and fair view, in all material respects, of the company's financial condition and operating results and are in accordance with relevant accounting standards.

5. Making timely and balanced disclosure

It is our policy to provide timely, open and accurate information to stakeholders.

6. Respecting the rights of members

We are committed to effectively communicating with members and enabling member participation at our annual general meeting (AGM). Our communication strategy reflects this commitment. This includes:

- communicating with members through our monthly magazine *feedback*, newsletters, the website, producer events and an active presence in the media
- using email to provide industry updates to members
- posting the notice of meeting, annual report and other explanatory material on our website
- holding our AGM at different locations around Australia to facilitate participation of members
- requiring all directors, senior management and the external auditor to attend the AGM
- posting a summary of the AGM on our website

7. Recognising and managing risk

The board has ultimate responsibility for risk management, compliance and control across the company. The review of risk management, processes and compliance has been delegated to the Audit Committee.

We continually review and assess strategic risks faced by the company, including assessing the likelihood, occurrence and potential impact on the organisation. Risk mitigation procedures are identified for these risks and responsibility for certain risk areas are assigned to members of management.

The Audit Committee and board receive regular updates on risk management reviews.

The managing director and chief financial officer have made a written representation that a sound system of risk management and internal compliance was in place and operated efficiently and effectively, in all material respects.

Directors' report

8. Encouraging enhanced performance

Each year, management's performance is assessed against agreed objectives, and an independent third party reviews the performance of the board and individual directors.

A description of the board evaluation process is available on our website.

9. Remunerating fairly and responsibly

The board is responsible for reviewing its own remuneration arrangements. A total limit of \$500,000 for directors' remuneration (excluding the managing director) was fixed at the 2000 AGM. Any increase of this limit is subject to approval, at a general meeting, by the company's members.

The board is also responsible for reviewing and determining the remuneration for the managing director and the senior management team. To assist with this process, the board has established a Remuneration Committee, comprising three non-executive directors. The Remuneration Committee, whose responsibilities are set out in the Remuneration Committee Charter, also reviews procedures for establishing remuneration levels for all staff.

Our objective is to provide maximum stakeholder benefit from the retention of a high quality board and senior management team by remunerating fairly and appropriately with reference to relevant market conditions.

The salaries of the managing director and the senior management team are linked to our operational performance and it is expected that this remuneration structure will:

- align management effort with organisational objectives
- attract, retain and motivate quality management

10. Recognising the legitimate interests of stakeholders

Our *Code of business conduct and ethics*, embodies our values and provides clear guidelines to ensure our commitments to stakeholders are met.

The *Code of business conduct and ethics* provides a framework for any employee to report a possible breach of the Code.

MLA DONOR COMPANY LIMITED

The business activities of MLA Donor Company Limited are overseen by a separate board of directors. The current members of the board are Professor Hudson, Mr Milliken, Mr Robinson and Mr Palmer. Mr Elsaesser and Dr Day were also directors during the year, with Mr Elsaesser retiring in July 2006 and Dr Day retiring on 22 November 2006.

DIRECTORS MEETINGS

During the year the company held 12 meetings of directors. The attendances of the directors at meetings of the board and of its committees were:

| | Board of directors | | Committees of the board of directors | | |
|--------------------|--------------------|-------|--------------------------------------|--------------|-----------|
| | Full board | Audit | Membership | Remuneration | Selection |
| B. M. Bindon (a) | 6(6) | 1(1) | - | - | - |
| P. R. Boyden | 11(12) | - | - | 3 | 3 |
| D. G Day (b) | 6(6) | - | - | - | - |
| A. M. Heatley | 12 | - | - | - | 3 |
| C. B. Hudson | 10(12) | - | - | 3 | - |
| W. R. Jackson | 10(12) | 3 | - | 3 | - |
| P. R. Milliken (c) | 12 | 2(2) | 4 | - | - |
| D. W. Palmer | 12 | - | - | - | - |
| J. F. Simms | 12 | - | 4 | - | - |
| P. J. Trefort | 12 | - | 4 | - | - |
| P. A. Troja | 11(12) | 3 | - | - | - |
| I. D. S. Watson | 12 | - | - | - | 3 |

(a) Prof Bindon was appointed on 22 November 2006.

(b) Dr Day retired on 22 November 2006.

(c) Mr Milliken ceased to sit on the audit committee from February 2007


Where a director did not attend all meetings of the board or relevant committee, the number of meetings for which the director was eligible to attend is shown in brackets.

AUDITOR INDEPENDENCE


The directors received the following declaration from the auditor of MLA.

Auditor's Independence Declaration to the Directors of Meat & Livestock Australia Limited

In relation to our audit of the financial report of Meat & Livestock Australia Limited for the financial year ended 30 June 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Brian R Blood
Partner

13 September 2007

Directors' report

NATURE OF OPERATIONS

The major activities of the consolidated entity during the financial year comprised:

- providing research and development support to the Australian red meat and livestock industry; and
- providing marketing and promotion services to the Australian red meat and livestock industry both domestically and overseas.

There have been no significant changes in the nature of these activities during the year.

REVIEW AND RESULTS OF OPERATIONS

Operating result for the period

The operating result of the consolidated entity for the financial year was a surplus of \$2,233,000 (2006: deficit of \$4,028,000).

Group overview

The consolidated entity earned total revenue of \$161,766,000 (2006: \$154,560,000) which is comprised of the following:

- Transaction levies \$98,177,000 (2006: \$82,012,000)
- Research and development matching grants \$35,661,000 (2006: \$40,301,000)
- Other income and revenues \$27,928,000 (2006: \$32,247,000)

Total income received/receivable was more than total expenditure, which resulted in an operating surplus of \$2,233,000 for the year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There were no significant events after the balance date.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

No significant changes in the operations of the consolidated entity are expected in the future.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Under its constitution, the company may indemnify each director and each executive officer against any claim or any expenses or costs which may arise as a result of work performed in their respective capacities.

The company paid an insurance premium in respect of a contract insuring all the directors, secretaries and executive officers of the group entities against all liabilities and expenses arising as a result of work performed in their respective capacities, to the extent permitted by law. The terms of that policy prohibit disclosure of the premium paid or the monetary limit of this indemnity.

ROUNDING OF AMOUNTS

The parent entity is a company of the kind specified in Australian Securities and Investments Commission class order 98/0100. In accordance with that class order, amounts in the financial statements and the directors' report have been rounded to the nearest thousand dollars unless specifically stated to be otherwise.

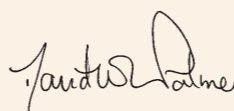
REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Level 1, 165 Walker Street
North Sydney New South Wales 2060
02 9463 9333

This report has been made in accordance with a resolution of directors.



A. M. Heatley
Director



D. W. Palmer
Director

Sydney
13 September 2007

FINANCIAL REPORT

For the year ended 30 June 2007

Income statement

Year ended 30 June 2007

| | Notes | Consolidated | | Parent | |
|---|-------|----------------|---------------|----------------|---------------|
| | | 2007 \$000 | 2006 \$000 | 2007 \$000 | 2006 \$000 |
| CONTINUING OPERATIONS | | | | | |
| REVENUES FROM ORDINARY ACTIVITIES | 3 | 161,766 | 154,560 | 161,766 | 154,560 |
| EXPENDITURE FROM ORDINARY ACTIVITIES | | | | | |
| Markets and consumers | | 64,736 | 55,632 | 64,736 | 55,632 |
| Product initiatives | | 17,381 | 19,012 | 17,381 | 19,012 |
| Community concerns | | 13,008 | 11,022 | 13,008 | 11,022 |
| Whole-of-chain efficiency | | 31,401 | 33,930 | 31,401 | 33,930 |
| R&D partnerships | | 11,372 | 13,295 | 11,372 | 13,295 |
| Strategic R&D | | 8,730 | 11,352 | 8,730 | 11,352 |
| Corporate services | | 8,713 | 8,691 | 8,713 | 8,691 |
| Communications | | 3,204 | 4,496 | 3,204 | 4,496 |
| Other | | 988 | 1,158 | 988 | 1,158 |
| Total expenditure | | 159,533 | 158,588 | 159,533 | 158,588 |
| NET SURPLUS/(DEFICIT) FROM ORDINARY ACTIVITIES | 18 | 2,233 | (4,028) | 2,233 | (4,028) |
| TOTAL CHANGE IN MEMBERS' FUNDS | | 2,233 | (4,028) | 2,233 | (4,028) |

The accompanying notes form an integral part of this income statement.

CONTENTS: FINANCIAL REPORT

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Balance sheet

Year ended 30 June 2007

| | Notes | Consolidated | | Parent | |
|--------------------------------------|-------|---------------|---------------|---------------|---------------|
| | | 2007 \$000 | 2006 \$000 | 2007 \$000 | 2006 \$000 |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 24 | 49,177 | 32,464 | 49,160 | 32,443 |
| Trade and other receivables | 7 | 25,526 | 27,483 | 25,543 | 27,504 |
| Prepayments and deposits | 8 | 856 | 2,371 | 856 | 2,371 |
| TOTAL CURRENT ASSETS | | 75,559 | 62,318 | 75,559 | 62,318 |
| NON-CURRENT ASSETS | | | | | |
| Other receivables | 9 | - | 377 | - | 377 |
| Investment in associate | 10 | - | - | - | - |
| Investment in subsidiary | 11 | - | - | - | - |
| Property, plant and equipment | 12 | 4,425 | 4,056 | 4,425 | 4,056 |
| TOTAL NON-CURRENT ASSETS | | 4,425 | 4,433 | 4,425 | 4,433 |
| TOTAL ASSETS | | 79,984 | 66,751 | 79,984 | 66,751 |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 13 | 33,519 | 23,948 | 33,519 | 23,948 |
| Provisions | 14 | 1,100 | 1,376 | 1,100 | 1,376 |
| Other liabilities | 15 | 4,115 | 1,411 | 4,115 | 1,411 |
| TOTAL CURRENT LIABILITIES | | 38,734 | 26,735 | 38,734 | 26,735 |
| NON-CURRENT LIABILITIES | | | | | |
| Other payables | 16 | - | 190 | - | 190 |
| Provisions | 17 | 924 | 829 | 924 | 829 |
| TOTAL NON-CURRENT LIABILITIES | | 924 | 1,019 | 924 | 1,019 |
| TOTAL LIABILITIES | | 39,658 | 27,754 | 39,658 | 27,754 |
| NET ASSETS | | 40,326 | 38,997 | 40,326 | 38,997 |
| EQUITY – MEMBERS' FUNDS | | | | | |
| Contributed equity | 27 | 9,031 | 9,031 | 9,031 | 9,031 |
| Retained surplus | 18 | 32,102 | 29,869 | 32,102 | 29,869 |
| Cash flow hedge reserve | 19 | (807) | 97 | (807) | 97 |
| TOTAL EQUITY – MEMBERS' FUNDS | | 40,326 | 38,997 | 40,326 | 38,997 |

The accompanying notes form an integral part of this Balance Sheet.

Statement of recognised income and expense

Year ended 30 June 2007

| | Notes | Consolidated | | Parent | |
|---|-------|---------------|----------------|---------------|----------------|
| | | 2007 \$000 | 2006 \$000 | 2007 \$000 | 2006 \$000 |
| Cash flow hedges | | | | | |
| (Loss)/gain taken to equity | 14 | (807) | 97 | (807) | 97 |
| Transferred to income statement for the year | | (97) | - | (97) | - |
| NET (LOSS)/INCOME RECOGNISED DIRECTLY IN EQUITY | | (904) | 97 | (904) | 97 |
| Surplus/(deficit) for the year | | 2,233 | (4,028) | 2,233 | (4,028) |
| TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR | | 1,329 | (3,931) | 1,329 | (3,931) |

The accompanying notes form an integral part of this statement of recognised income and expense.

Statement of cash flows

Year ended 30 June 2007

| Notes | Consolidated | | Parent | |
|---|---------------|----------------|---------------|----------------|
| | 2007 \$000 | 2006 \$000 | 2007 \$000 | 2006 \$000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Levies collected | 99,229 | 80,081 | 99,229 | 80,081 |
| Research and development matching grants | 38,077 | 40,898 | 38,077 | 40,898 |
| Receipts from subsidiary | | - | 7,086 | 6,648 |
| Receipts from processors and live exporters | 12,248 | 13,938 | 12,248 | 13,938 |
| Other receipts | 12,457 | 19,027 | 5,395 | 12,379 |
| Payments to suppliers and employees | (145,572) | (159,389) | (145,572) | (159,389) |
| NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES | 16,439 | (5,445) | 16,463 | (5,445) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from disposal of property, plant and equipment | 44 | 54 | 44 | 54 |
| Purchase of property, plant and equipment | (1,849) | (3,205) | (1,849) | (3,205) |
| Interest received | 2,079 | 2,171 | 2,059 | 2,150 |
| NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES | 274 | (980) | 254 | (1,001) |
| NET INCREASE/(DECREASE) IN CASH HELD | | | | |
| Add opening cash brought forward | 32,464 | 38,828 | 32,443 | 38,828 |
| Exchange rate adjustments on cash balances | - | 61 | - | 61 |
| CLOSING CASH CARRIED FORWARD | 49,177 | 32,464 | 49,160 | 32,443 |

The accompanying notes form an integral part of this statement of cash flows.

Notes to the financial statements

Year ended 30 June 2007

1. CORPORATE INFORMATION

The financial report of MLA for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 13th September 2007.

MLA is a company limited by guarantee incorporated in Australia.

The nature of the operations and principal activities of the Group are described in the directors' report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis except for derivative financial instruments which have been measured at fair value.

The financial report is presented in Australian dollars.

(b) Statement of compliance

Except for the amendments to AASB 114 Segment Reporting which MLA has early adopted, Australian Accounting Standards and Interpretations that have recently been issued or amended but are not effective have not been adopted by the Company for the annual reporting period ending 30 June 2007.

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Meat & Livestock Australia Limited (the "Company") and MLA Donor Company Limited.

The financial statements of MLA Donor Company Limited are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany balances and transactions have been eliminated in full.

(d) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the statement of cash flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts.

Included in the balance of cash and cash equivalents are funds received from the Commonwealth Government in relation to the National Livestock Identification System (NLIS). These funds are to be distributed as directed by the NLIS Review Committee and the Minister generally to State Governments based on approved business plans.

(e) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debt. Bad debts are written-off as incurred.

Non-current receivables are discounted using the Commonwealth Government bond rate.

(f) Taxes

Income tax

The Company is exempt from income tax under section 50-40 of the Income Tax Assessment Act 1997.

Goods and services tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST except:

- Where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables (except accrued income and expenditure) are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing activities, which is recoverable from or payable to the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Notes to the financial statements

(g) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue, trade debtors and accrued revenue are recognised for the major business activities as follows:

- Transaction levies – revenue is recognised in the period to which it relates based on confirmations received from the Levies and Revenue Service who collect and distribute levies to the Company.
- Research and development matching grants – revenue is recognised for the matching funding from the Department of Agriculture, Fisheries and Forestry (DAFF) to the extent that the approved eligible research and development expenditure has been incurred. Accrued matching grants represent unclaimed funding for the amount incurred on research and development.
- R&D partnership income, processor and live exporter contributions are recognised as revenue to the extent that the expenditure has been incurred.
- Interest income is taken up as income on an accrual basis.

(h) Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

(i) Derivative financial instruments and hedging

The Company uses derivative financial instruments such as forward currency contracts and options contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to net profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purposes of hedge accounting, hedges are classified as cash flow hedges when they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

Cash flow hedges are hedges of the Company's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the income statement.

(j) Foreign currency translation

Both the functional and presentation currency of the Company and its subsidiary is Australian dollars (\$). Each entity in the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the budget exchange rate and subsequently revaluing it to the average exchange rate of the month. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

(k) Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

(l) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership. The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter, if there is no certainty the Company will obtain ownership by the end of the lease.

(m) Property, plant and equipment

Cost

All classes of property, plant and equipment are measured at cost.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment.

| | Life |
|------------------------|-----------|
| Leasehold improvements | 3 years |
| Plant and equipment | 2-5 years |
| Furniture and fittings | 3-5 years |

The assets residual values, useful lives and amortisation methods are reviewed and adjusted, if appropriate at each financial year end.

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Notes to the financial statements

(n) Trade and other payables

Liabilities for trade and other payables are carried at amortised cost, which is the fair value of consideration to be paid in the future for goods and services received prior to the end of the financial year and which are unpaid. These amounts are unsecured and will be paid when due.

(o) Unearned income

Unearned income consists of funds which have been received or invoiced but income recognition has been deferred to future years because the project milestones have not been met or the expenditure to which they relate has not been incurred.

(p) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, long service leave and other employee benefits.

Liabilities arising in respect of wages and salaries, annual leave, and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liabilities are settled.

All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee and period of service. The Commonwealth Government bond rates are used in determining the present value of the future cash outflows.

Employee benefit expenses arising in respect of the following categories:

- wages and salaries, annual leave, long service leave, and other leave benefits; and
- other types of employee benefits

are charged against the surplus on a net basis in their respective categories in the Income Statement.

(q) Rent free period

The office lease in North Sydney was renegotiated in 2003 to include a 13 month rent-free period. The benefit of the rent-free period is being amortised on a straight-line basis over the five-year lease term.

(r) Associated entities

Interests in associated entities are included in non-current assets at the recoverable amount. Detailed equity accounting information concerning the consolidated entity's material interests in associated entities is provided in Note 10.

| | Notes | Consolidated | | Parent | |
|---|-------|---------------|---------------|---------------|---------------|
| | | 2007 \$000 | 2006 \$000 | 2007 \$000 | 2006 \$000 |
| 3. REVENUE FROM ORDINARY ACTIVITIES | | | | | |
| Revenues from operating activities | | | | | |
| Transaction levies | 4 | 98,177 | 82,012 | 98,177 | 82,012 |
| R&D matching grants | | 35,661 | 40,301 | 35,661 | 40,301 |
| Other income | 5 | 25,767 | 30,063 | 25,787 | 30,084 |
| Total revenues from operating activities | | 159,605 | 152,376 | 159,625 | 152,397 |
| Revenues from non-operating activities | | | | | |
| Bank interest | | 2,151 | 2,142 | 2,131 | 2,121 |
| Net gain on disposal of other property, plant and equipment | | 10 | 42 | 10 | 42 |
| Total revenues from non-operating activities | | 2,161 | 2,184 | 2,141 | 2,163 |
| Total revenues from ordinary activities | | 161,766 | 154,560 | 161,766 | 154,560 |
| 4. TRANSACTION LEVIES | | | | | |
| Transaction levies: | | | | | |
| - Grain fed cattle | | 9,927 | 7,402 | 9,927 | 7,402 |
| - Grass fed cattle | | 59,051 | 46,004 | 59,051 | 46,004 |
| - Lambs | | 25,071 | 24,512 | 25,071 | 24,512 |
| - Sheep | | 3,711 | 3,738 | 3,711 | 3,738 |
| - Goats | | 417 | 356 | 417 | 356 |
| Total transaction levies | | 98,177 | 82,012 | 98,177 | 82,012 |
| 5. OTHER INCOME | | | | | |
| Processor contributions | | 11,099 | 11,650 | 11,099 | 11,650 |
| Live exporter contributions | | 1,093 | 1,172 | 1,093 | 1,172 |
| Co-operative funding | | 3,022 | 3,451 | 3,022 | 3,451 |
| R&D partnership income | | 5,686 | 6,627 | - | - |
| Income from subsidiary | | - | - | 5,706 | 6,648 |
| Australian Government grants | | 720 | 1,485 | 720 | 1,485 |
| Sale of products or services (a) | | 3,705 | 4,153 | 3,705 | 4,153 |
| Other (b) | | 442 | 1,525 | 442 | 1,525 |
| Total other income | | 25,767 | 30,063 | 25,787 | 30,084 |

(a) Included in this amount is income received from the sale of the Livestock Production Assurance National Vendor Declaration of \$1,625,319 (2006: \$2,001,000).

(b) Included in Other is income received from the World Meat Congress of \$nil (2006: \$1,281,000). The expenditure for the World Meat Congress amounts to \$nil (2006: \$1,056,000) which is included in the Communications expenditure in the Income Statement.

Notes to the financial statements

| Notes | Consolidated | | Parent | |
|--|---------------|---------------|---------------|---------------|
| | 2007 \$000 | 2006 \$000 | 2007 \$000 | 2006 \$000 |
| 6. EXPENSES AND LOSSES/(GAINS) | | | | |
| Depreciation of non-current assets included in the income statement: | | | | |
| Leasehold improvements | 316 | 294 | 316 | 294 |
| Plant and equipment | 1,105 | 754 | 1,105 | 754 |
| Furniture and fittings | 25 | 30 | 25 | 30 |
| Total depreciation of non-current assets | 1,446 | 1,078 | 1,446 | 1,078 |
| Bad and doubtful debts – trade debtors | 13 | 22 | 13 | 22 |
| Operating lease rentals included in the income statement | 2,873 | 2,792 | 2,873 | 2,792 |
| Employee benefit expense: | | | | |
| Wages and salaries | 23,656 | 22,351 | 23,656 | 22,351 |
| Workers compensation costs | 197 | 93 | 197 | 93 |
| Annual leave provision | 324 | 439 | 324 | 439 |
| Long service leave provision | 350 | 355 | 350 | 355 |
| Superannuation expense | 1,578 | 1,576 | 1,578 | 1,576 |
| Other post employment benefits | 150 | 104 | 150 | 104 |
| Termination expenses | 690 | 85 | 690 | 85 |
| Net foreign exchange loss/(gain) | 26 | (7) | 26 | (7) |
| 7. TRADE AND OTHER RECEIVABLES (CURRENT) | | | | |
| Trade debtors (a) | 3,719 | 3,312 | 3,719 | 3,312 |
| Provision for doubtful debts | (12) | (4) | (12) | (4) |
| Trade debtors, net | 3,707 | 3,308 | 3,707 | 3,308 |
| Accrued revenue | | | | |
| - Levies (a) | 6,202 | 6,489 | 6,202 | 6,489 |
| - R&D matching grants (a) | 12,014 | 13,816 | 12,014 | 13,816 |
| - Other (a) | 3,281 | 3,376 | 3,281 | 3,376 |
| Total accrued revenue | 21,497 | 23,681 | 21,497 | 23,681 |
| Receivable from subsidiary | - | - | 17 | 21 |
| Goods and services tax | 248 | 305 | 248 | 305 |
| Other receivables | 74 | 92 | 74 | 92 |
| Hedging foreign currency receivable (b) | - | 97 | - | 97 |
| Total current receivables, net | 25,526 | 27,483 | 25,543 | 27,504 |

(a) Trade debtors, R&D matching grants, levies and other accrued revenue are non-interest bearing and generally on 14 to 30 day terms. Provision for doubtful debts is made when there is objective evidence that a trade debtor is impaired. An amount of \$13,000 (2006: \$22,000) has been recognised as an expense for specific debtors for which evidence exists.

(b) Hedging foreign currency receivable represents the net receivable arising from foreign exchange forward contracts and foreign exchange options contracts to buy foreign currency within the next 12 months.

| Notes | Consolidated | | Parent | |
|--|---------------|---------------|---------------|---------------|
| | 2007 \$000 | 2006 \$000 | 2007 \$000 | 2006 \$000 |
| 8. PREPAYMENTS AND DEPOSITS | | | | |
| Deferred option premiums | 20 | 135 | 20 | 135 |
| Prepayments | 664 | 1,971 | 664 | 1,971 |
| Deposits | 172 | 265 | 172 | 265 |
| Total prepayments and deposits | 856 | 2,371 | 856 | 2,371 |
| 9. OTHER RECEIVABLES (NON-CURRENT) | | | | |
| Accrued revenue | | | | |
| - Other | - | 377 | - | 377 |
| Total non-current other receivables | - | 377 | - | 377 |
| The non-current receivables at June 06 have been discounted using the Commonwealth Government bond rate. | | | | |
| 10. INVESTMENT IN ASSOCIATE | | | | |
| Unlisted: | | | | |
| AUS-MEAT Limited | - | - | - | - |

AUS-MEAT Limited became an associated entity in 1998/99 and is jointly owned (50% each) by MLA and Australian Meat Processor Corporation Limited.

AUS-MEAT Limited is an independent company limited by guarantee with operations split into two principal areas, the Standards division and the Services division. It is incorporated in Australia.

MLA has a continuing commitment to support AUS-MEAT Limited. The contribution for the financial year ended 30 June 2007 was \$650,000 (2006: \$650,000).

Notes to the financial statements

| | AUS-MEAT Limited | |
|--|------------------|---------------|
| | 2007 \$000 | 2006 \$000 |
| Summary results of the Associate Entity | | |
| Revenue | 6,997 | 6,716 |
| Accumulated deficit at beginning of the year | (231) | (458) |
| Accumulated deficit at end of the year | (40) | (231) |
| Financial summary of Associated Entity | | |
| Total current assets | 5,603 | 5,570 |
| Total non current assets | 872 | 765 |
| Total current liabilities | 1,322 | 1,385 |
| Total non current liabilities | 75 | 65 |
| Net assets | 5,078 | 4,885 |

The investment in AUS-MEAT Limited has been taken up at nil value (2006: \$nil). There is no entitlement to a share of the net results or net assets.

| | Consolidated | | Parent | |
|--|---------------|---------------|---------------|---------------|
| | 2007 \$000 | 2006 \$000 | 2007 \$000 | 2006 \$000 |
| | | | | |

11. INVESTMENT IN SUBSIDIARY

| | | | | |
|-------------------------------|---|---|---|---|
| Interest in controlled entity | - | - | - | - |
|-------------------------------|---|---|---|---|

MLA Donor Company Limited is wholly owned by MLA. This company was incorporated in Australia on 6 August 1998 and is limited by guarantee. If the company is wound up, its Constitution states that MLA is required to contribute a maximum of \$5 towards meeting any outstanding obligations of the company.

| Notes | Consolidated | | Parent | |
|--|---------------|---------------|---------------|---------------|
| | 2007 \$000 | 2006 \$000 | 2007 \$000 | 2006 \$000 |
| 12. PROPERTY, PLANT AND EQUIPMENT | | | | |
| Plant and equipment | | | | |
| At cost | 6,801 | 6,098 | 6,801 | 6,098 |
| Accumulated depreciation | (2,745) | (2,706) | (2,745) | (2,706) |
| Total plant and equipment | 4,056 | 3,392 | 4,056 | 3,392 |
| Furniture and fittings | | | | |
| At cost | 259 | 269 | 259 | 269 |
| Accumulated depreciation | (218) | (205) | (218) | (205) |
| Total furniture and fittings | 41 | 64 | 41 | 64 |
| Leasehold improvements | | | | |
| At cost | 3,936 | 3,892 | 3,936 | 3,892 |
| Accumulated depreciation | (3,608) | (3,292) | (3,608) | (3,292) |
| Total leasehold improvements | 328 | 600 | 328 | 600 |
| Total property, plant and equipment | | | | |
| Cost | 10,996 | 10,259 | 10,996 | 10,259 |
| Accumulated depreciation | (6,571) | (6,203) | (6,571) | (6,203) |
| Total written down value | 4,425 | 4,056 | 4,425 | 4,056 |
| Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year. | | | | |
| <i>Plant and equipment</i> | | | | |
| Carrying amount at beginning | 3,392 | 1,395 | 3,392 | 1,395 |
| Additions | 1,803 | 2,812 | 1,803 | 2,812 |
| Disposals | (34) | (61) | (34) | (61) |
| Depreciation expense | (1,105) | (754) | (1,105) | (754) |
| | 4,056 | 3,392 | 4,056 | 3,392 |
| <i>Furniture and fittings</i> | | | | |
| Carrying amount at beginning | 64 | 74 | 64 | 74 |
| Additions | 2 | 20 | 2 | 20 |
| Depreciation expense | (25) | (30) | (25) | (30) |
| | 41 | 64 | 41 | 64 |
| <i>Leasehold improvements</i> | | | | |
| Carrying amount at beginning | 600 | 517 | 600 | 517 |
| Additions | 44 | 377 | 44 | 377 |
| Depreciation expense | (316) | (294) | (316) | (294) |
| | 328 | 600 | 328 | 600 |

Notes to the financial statements

| | Notes | Consolidated | | Parent | |
|---|-------|---------------|---------------|---------------|---------------|
| | | 2007 \$000 | 2006 \$000 | 2007 \$000 | 2006 \$000 |
| 13. TRADE AND OTHER PAYABLES (CURRENT) | | | | | |
| Trade payables (a), (b) | | 7,144 | - | 7,144 | - |
| Accrued R&D and other creditors (b) | | 16,725 | 13,602 | 16,725 | 13,602 |
| Funds held on behalf of the Commonwealth (c) | | 6,309 | 7,533 | 6,309 | 7,533 |
| Rent-free period (d) | | 188 | 188 | 188 | 188 |
| Derivative Financial Instruments (e) | | 830 | - | 830 | - |
| Employee entitlements | | | | | |
| - Annual leave | | 1,985 | 2,325 | 1,985 | 2,325 |
| - Other | | 338 | 300 | 338 | 300 |
| Total current trade and other payables | | 33,519 | 23,948 | 33,519 | 23,948 |

(a) The introduction of a new system (SAP) has enabled the Company to pay its suppliers post year end unlike prior years.

(b) Trade payables, accrued R&D and other creditors are non-interest bearing and are normally settled on 30 day terms. In the case of accrued R&D, any payments are further subject to milestones being satisfactorily completed. Where the creditors and accruals include balances that are denominated in a foreign currency that has not been effectively hedged, these balances have been further disclosed in Note 20.

(c) The Company has entered into arrangements with the Commonwealth Government, through the Department of Agriculture, Forestry and Fisheries to receive grants in relation to the National Livestock Identification System (NLIS). The funds are to be distributed as directed by the NLIS Review Committee and the Minister, generally to State Governments based on approved business plans. Funds (including interest) totalling \$11,683,929 have been received or invoiced, and net payments of \$5,374,935 have been made. The whole amount is classified as current as MLA is required to distribute the funds as directed by the NLIS review committee and the Minister and this direction may occur at any time. Interest received on these funds accrues back to NLIS and not to the Company.

(d) The office lease in North Sydney was renegotiated in 2003 to include a 13 month rent-free period. The benefit of the rent-free period is being amortised on a straight-line basis over the five-year lease term.

(e) Pursuant to Note 2(i), the Company remeasured to fair value its outstanding forward currency and option contracts as at year end. An amount of \$807,239 was taken to equity with the difference to income statement.

14. PROVISIONS (CURRENT)

| | | | | | |
|---------------------------------|--|--------------|--------------|--------------|--------------|
| Employee entitlements | | | | | |
| - Long service leave | | 1,050 | 1,152 | 1,050 | 1,152 |
| - Other | | - | 174 | - | 174 |
| Other provisions | | 50 | 50 | 50 | 50 |
| Total current provisions | | 1,100 | 1,376 | 1,100 | 1,376 |

Movements in provisions:

CONSOLIDATED AND PARENT

| | Long service leave \$000 | Other employee entitlements \$000 | Other provisions \$000 | Total \$000 |
|---|--------------------------------|---|------------------------------|----------------|
| Carrying amount at the beginning of the financial year | 1,152 | 174 | 50 | 1,376 |
| Additional provisions | 126 | 16 | - | 142 |
| Paid/ written back | (273) | (190) | - | (463) |
| Amounts transferred from non- current during the year | 45 | - | - | 45 |
| Carrying amount at the end of the financial year | 1,050 | - | 50 | 1,100 |

| | Notes | Consolidated | | Parent | |
|---|-------|---------------|---------------|---------------|---------------|
| | | 2007 \$000 | 2006 \$000 | 2007 \$000 | 2006 \$000 |
| 15. OTHER LIABILITIES (CURRENT) | | | | | |
| Unearned income | | 3,323 | 1,093 | 3,323 | 1,093 |
| Other | | 792 | 318 | 792 | 318 |
| Total current other liabilities | | 4,115 | 1,411 | 4,115 | 1,411 |
| 16. TRADE AND OTHER PAYABLES (NON-CURRENT) | | | | | |
| Rent-free period | 13(d) | - | 190 | - | 190 |
| Total non-current trade and other payables | | - | 190 | - | 190 |

17. PROVISIONS (NON-CURRENT)

| | | | | | |
|-------------------------------------|--|------------|------------|------------|------------|
| Employee entitlements | | | | | |
| - Long service leave | | 924 | 725 | 924 | 725 |
| - Other | | - | 104 | - | 104 |
| Total non-current provisions | | 924 | 829 | 924 | 829 |

Movements in provisions:

CONSOLIDATED AND PARENT

| | Long service leave \$000 | Other employee entitlements \$000 | Total \$000 |
|---|--------------------------------|--|----------------|
| Carrying amount at the beginning of the financial year | 725 | 104 | 829 |
| Additional provisions | 286 | 10 | 296 |
| Paid/ written back | (42) | (114) | (42) |
| Amounts transferred to current during the year | (45) | - | (159) |
| Carrying amount at the end of the financial year | 924 | - | 924 |

18. RETAINED SURPLUS

| | | | | |
|--|---------------|---------------|---------------|---------------|
| Retained surplus at the beginning of the financial year | 29,869 | 33,897 | 29,869 | 33,897 |
| Net surplus/(deficit) | 2,233 | (4,028) | 2,233 | (4,028) |
| Retained surplus at the end of the financial year | 32,102 | 29,869 | 32,102 | 29,869 |

Notes to the financial statements

| | Consolidated | | Parent | |
|--|---------------|---------------|---------------|---------------|
| | 2007 \$000 | 2006 \$000 | 2007 \$000 | 2006 \$000 |
| 19. CASH FLOW HEDGE RESERVE | | | | |
| At 1 July 2006 | 97 | - | 97 | - |
| Net (loss)/gain on cash flow hedges | (807) | 97 | (807) | 97 |
| Transfer of cashflow hedge reserve to income statement | (97) | - | (97) | - |
| Total cash flow hedge reserve | (807) | 97 | (807) | 97 |

20. FOREIGN CURRENCY EXPOSURE

The Australian dollar equivalent of foreign currency monetary items included in the balance sheet to the extent that they are not effectively hedged, are set out below. The Company takes out option contracts and forward foreign exchange contracts in United States dollars, Japanese yen and Korean won to minimise the short-term impact of currency fluctuations on overseas programs (refer note 28).

| | | | | |
|----------------------|-----|-----|-----|-----|
| Current assets: | | | | |
| - Bahrain dinars | 33 | 74 | 33 | 74 |
| - Euro | 12 | 13 | 12 | 13 |
| - Chinese renminbi | 43 | 64 | 43 | 64 |
| | 88 | 151 | 88 | 151 |
| Current liabilities: | | | | |
| - Bahrain dinars | 60 | 71 | 60 | 71 |
| - Euro | 103 | 11 | 103 | 11 |
| | 163 | 82 | 163 | 82 |

21. EMPLOYEE ENTITLEMENTS

The aggregate employee benefit liability is comprised of:

| | | | | |
|--|-------|-------|-------|-------|
| Provisions - current (refer note 14) | 1,050 | 1,326 | 1,050 | 1,326 |
| Provisions - non current (refer note 17) | 924 | 829 | 924 | 829 |
| Payables - current (refer note 13) | 2,323 | 2,625 | 2,323 | 2,625 |
| | 4,297 | 4,780 | 4,297 | 4,780 |
| The number of full-time equivalent employees as at 30 June (a) | 240.6 | 253.6 | 240.6 | 253.6 |

(a) The decrease in the number of full time employees was mainly due to organisational restructure and an increase in vacancies as at June 30, 2007.

| | Consolidated | | Parent | |
|---|---------------|---------------|---------------|---------------|
| | 2007 \$000 | 2006 \$000 | 2007 \$000 | 2006 \$000 |
| 22. REMUNERATION OF AUDITORS | | | | |
| Amounts received or due and receivable by Ernst & Young for: | | | | |
| - auditing or reviewing of the financial report of the entity and any other entity in the consolidated entity (a) | 140,500 | 98,000 | 135,000 | 93,000 |
| - other services in relation to the entity and any other entity in the consolidated entity: | | | | |
| • tax compliance | 10,475 | 10,359 | 10,475 | 10,359 |
| • other non-audit services (b) | 139,465 | 76,300 | 139,465 | 76,300 |
| | 290,440 | 184,659 | 284,940 | 179,659 |

22. REMUNERATION OF AUDITORS

Amounts received or due and receivable by Ernst & Young for:

- auditing or reviewing of the financial report of the entity and any other entity in the consolidated entity (a)

- other services in relation to the entity and any other entity in the consolidated entity:

- tax compliance
- other non-audit services (b)

(a) This fee included an additional amount of \$33,000 for a specific review of controls post implementation of the SAP financial systems.

(b) Summary of the other non-audit fees incurred are:

| | | | | |
|---|---------|--------|---------|--------|
| NLIS forensic investigation | 81,779 | - | 81,779 | - |
| Levies handling and voting entitlement review | 40,397 | - | 40,397 | - |
| Deed compliance and NLIS grant audits | 17,289 | 7,800 | 17,289 | 7,800 |
| Regulatory compliance review | - | 35,500 | - | 35,500 |
| IT equipment verification | - | 21,500 | - | 21,500 |
| Other non-audit fees | - | 11,500 | - | 11,500 |
| | 139,465 | 76,300 | 139,465 | 76,300 |

23. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of key management personnel

(i) Directors

Arthur Macedon (Don) Heatley – Chairman

David William Palmer – Managing Director

Bernard (Bernie) Michael Bindon

(appointed 22 November 2006)

Peter Roderick Boyden

Diana Gwendoline Day

(retired 22 November 2006)

Christopher Burgoyne Hudson

Wayne Robert Jackson

Peter Robert Milliken

John (Jay) Field Simms

Peter James Trefort

Paul Anthony Troja

Ian Douglas Stuart Watson

(ii) Executives

Peter Barnard

Allan Bloxson

Scott Hansen

Ian Johnsson

Christine Pitt

Laurie Robinson

David Thomason

General manager – International Markets and Economic Services

General manager – Industry Systems

General manager – Corporate Communications and Livestock Exports

General manager – Livestock Production Innovation

General manager – Client and Innovation Services

General manager – Corporate Services

General manager – Marketing

Notes to the financial statements

| | Consolidated | | Parent | |
|---|--------------|------------|------------|------------|
| | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| <i>(iii) Compensation of key management personnel by categories</i> | | | | |
| <i>Directors</i> | | | | |
| Short-term benefits | 844,624 | 970,268 | 844,624 | 970,268 |
| Post employment benefits | 53,435 | 56,731 | 53,435 | 56,731 |
| Other long term benefits | 22,806 | 12,475 | 22,806 | 12,475 |
| (a) | 920,865 | 1,039,474 | 920,865 | 1,039,474 |
| <i>Executives (b)</i> | | | | |
| Short-term benefits | 2,590,494 | 2,270,827 | 2,590,494 | 2,270,827 |
| Post employment benefits | 108,489 | 114,178 | 108,489 | 114,178 |
| Other long-term benefits | 68,167 | 114,564 | 68,167 | 114,564 |
| (a) | 2,767,150 | 2,499,569 | 2,767,150 | 2,499,569 |

(a) Compensation includes all benefits paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. Compensation includes wages, salaries, superannuation, termination expenses and other employees' provisions. Termination expenses consists of payments of \$338,000 made to executives following a restructure of the senior executive team.

(b) Executive compensation refers to all compensation earned by the general managers of the Company with the exception of the managing director whose compensation has been included under Directors' compensation.

(b) Related party transactions

Directors of the consolidated entity and directors of its related parties, or their director-related entities, conduct transactions with entities within the consolidated entity that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those which it is reasonable to expect the entity would have adopted if dealing with the director or director-related entity at arm's length in similar circumstances. These transactions include the following and have been quantified below where the transactions are considered likely to be of interest to users of these financial statements:

- Professor Bindon is an Adjunct Professor at the University of New England. The Company has paid \$1,690,388 to the University of New England for scholarships and to carry out R&D projects.

Professor Bindon was Chairman of the Australian Registered Cattle Breeders' Association until February 28, 2007.

- Professor Hudson is a director of Food Science Australia. The Company has paid \$2,797,149 (2006: \$2,328,215) to Food Science Australia to carry out R&D projects. Food Science Australia also paid \$515 (2006: \$5,422) to the Company for reimbursement of expenses.

Professor Hudson is an Adjunct Professor at the University of Queensland and a Professorial Fellow at the University of Wollongong. The Company has paid \$1,707,518 (2006: \$592,638) to the University of Queensland and \$101,176 (2006: \$96,646) to the University of Wollongong to carry out R&D projects.

Professor Hudson is a member of the Food Innovation Grant Assessment Committee for National Food Industry Strategy limited (concluded June 2007). In 2007 they paid the Company \$1,747 for reimbursement of expenses.

- Dr Day is an Associate Professor of the University of Sydney and an Adjunct Professor of the Southern Cross University. The Company has paid \$1,669,628 (2006: \$2,157,433) to the University of Sydney for scholarships and to carry out R&D projects. University of Sydney also paid \$49,873 (2006: \$91,566) to the Company for R&D projects.

- Mr Troja is a director of Itoham Pty Ltd and Rockdale Beef Pty Ltd.

Itoham paid to the Company \$6,696 (2006: \$187) for participation industry events. The Company also paid Itoham \$600 in 2006 for reimbursement of expenses.

Rockdale Beef has paid the Company \$132,422 (2006: \$164,812) as contributions towards R&D partnership projects, MSA licence fee, grading services and NLRS subscriptions. The Company also paid Rockdale Beef \$301,290 (2006: \$47,495) to carry out R&D partnership projects and for reimbursement of expenses.

Mr Troja is a member of Australian Meat Industry Council (AMIC) and Australian Lot Feeders Association. The Company has paid \$107,176 to AMIC and \$101,744 to Australian Lot Feeders Association. The Company has received \$20,000 from Australian Lot Feeders' Association for R&D projects.

Mr Troja is also a member of Australian Meat Processor Corporation (AMPC). AMPC paid \$10,564,502 to the Company for R&D and marketing projects in 2007.

(c) Wholly-owned Group Transactions

The parent entity entered into the following transactions during the year with its only controlled entity being MLA Donor Company Limited.

- MLA Donor Company Limited has paid \$7,086,000 (2006: \$6,648,000) to the Company which related to R&D partnership income and management fees.

Notes to the financial statements

| | Consolidated | | Parent | |
|---|---------------|---------------|---------------|---------------|
| | 2007 \$000 | 2006 \$000 | 2007 \$000 | 2006 \$000 |
| 24. NOTES TO THE STATEMENT OF CASH FLOWS | | | | |
| (a) Reconciliation of cash | | | | |
| Cash on hand | 5,142 | 2,785 | 5,125 | 2,764 |
| NLIS funds held on behalf of Commonwealth for NLIS implementation activities | 6,096 | 7,533 | 6,096 | 7,533 |
| Short term money market deposits | 37,939 | 22,146 | 37,939 | 22,146 |
| Closing cash balance | 49,177 | 32,464 | 49,160 | 32,443 |
| (b) Reconciliation of net cash provided by/(used in) operating activities to net surplus/(deficit) | | | | |
| Net surplus/(deficit) | 2,233 | (4,028) | 2,233 | (4,028) |
| Adjustments for: | | | | |
| Net gain on disposal of property, plant and equipment | (10) | (42) | (10) | (42) |
| Depreciation expense | 1,446 | 1,078 | 1,446 | 1,078 |
| Net foreign exchange (gain)/loss on cash | - | (61) | - | (61) |
| Interest received | (2,079) | (2,171) | (2,059) | (2,150) |
| Change in assets and liabilities: | | | | |
| (Increase)/decrease in assets: | | | | |
| - Decrease in trade and other receivables | 2,237 | 1,351 | 2,241 | 1,330 |
| - Decrease/(increase) in prepayments and deposits | 1,515 | (937) | 1,515 | (937) |
| Increase/(decrease) in liabilities: | | | | |
| - Increase/(decrease) in trade and other payable | 8,574 | (301) | 8,574 | (301) |
| - Increase/(decrease) in other liabilities | 2,704 | (678) | 2,704 | (678) |
| - (Decrease)/increase in provisions | (181) | 344 | (181) | 344 |
| Net cash provided by/(used in) operating activities | 16,439 | (5,445) | 16,463 | (5,445) |

| | Consolidated | | Parent | |
|---|---------------|---------------|---------------|---------------|
| | 2007 \$000 | 2006 \$000 | 2007 \$000 | 2006 \$000 |
| 25. EXPENDITURE COMMITMENTS | | | | |
| Research and development expenditure contracted for is payable as follows: | | | | |
| - Not later than one year | 31,730 | 43,609 | 24,482 | 43,609 |
| - Later than one year but not later than five years | 24,250 | 26,789 | 19,770 | 26,789 |
| - Later than five years | 336 | 300 | 335 | 300 |
| Aggregate R&D expenditure contracted for at balance date | 56,316 | 70,698 | 44,587 | 70,698 |
| Operating lease expenditure contracted for is payable as follows: | | | | |
| - Not later than one year | 2,428 | 2,670 | 2,428 | 2,670 |
| - Later than one year but not later than five years | 1,058 | 2,613 | 1,058 | 2,613 |
| Aggregate lease expenditure contracted for at balance date (a) | 3,486 | 5,283 | 3,486 | 5,283 |

(a) The operating lease commitments include leases for properties, motor vehicles and maintenance with terms ranging from one to five years.

26. MEMBERS' FUNDS

The Company is incorporated in Australia and is a company limited by guarantee. If the company is wound up, its Constitution states that each member is required to contribute a maximum of \$5 each towards meeting any outstanding obligations of the company. At 30 June 2007, the number of members was 43,401 (2006: 39,086).

27. CONTRIBUTED EQUITY

| | 2007 \$000 | 2006 \$000 | 2007 \$000 | 2006 \$000 |
|----------------------|---------------|---------------|---------------|---------------|
| Capital contribution | 9,031 | 9,031 | 9,031 | 9,031 |

This amount represents contributions from the Commonwealth Government as initial working capital and fixed assets at written down value transferred from the Australian Meat and Live-stock Corporation and the Meat Research Corporation at nil consideration.

Notes to the financial statements

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

MLA's principal financial instruments include derivatives, cash and short-term deposits.

The Company has various other financial assets and liabilities such as trade receivables and trade payables which arise directly from its operations. MLA enters into derivative transactions, including forward currency contracts and currency option contracts. The purpose is to manage the currency risks arising from the Company's overseas operations. The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset are disclosed in note 2 to the financial statements.

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's cash and short-term deposit holding with a floating interest rate.

Foreign currency risk

The consolidated entity uses derivative financial instruments to manage specifically identified foreign currency risks. The consolidated entity is primarily exposed to the risk of adverse movements in the Australian dollar relative to certain foreign currencies. The purpose for which derivative instruments are used is as follows.

Forward exchange contracts and options are purchased to hedge a majority of the Australian dollar value of US dollar, Japanese yen and Korean won payments arising from the overseas branches.

Foreign exchange contracts commit the consolidated entity to purchase specific amounts of US dollars, Japanese yen or Korean won at an agreed rate of exchange maturing at specific times up to 12 months from balance date.

Option contracts give the consolidated entity the right to purchase specific amounts of US dollars and Japanese yen at an agreed rate of exchange maturing at specific times up to 12 months from balance date. The remaining time value of unexpired option premiums paid as at year end (2007: \$20,000; 2006: \$135,000) have been deferred onto the Balance Sheet (refer Note 8).

Credit risk

The consolidated entity trades only with recognised creditworthy third parties. There are no significant concentrations of credit risk. The consolidated entity's maximum exposure to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of these assets as indicated in the Balance Sheet.

29. FINANCIAL INSTRUMENTS

Hedging activities

Cash flow hedges

At 30 June 2007, the Company held forward exchange contracts and options contracts designated as hedges of forecasted future cash outflows to the overseas offices. The following tables summarise by currency the Australian dollar value of forward foreign exchange contracts and options contracts. The "buy" amounts represent the Australian dollar equivalent of commitments to purchase foreign currencies under forward contracts and the right to purchase foreign currencies under options contracts. Contracts to buy foreign currency are entered into to minimise the short-term impact of currency fluctuations on overseas programs.

| | Average exchange rate | | Buy amount | |
|--|-----------------------|--------|---------------|---------------|
| | 2007 | 2006 | 2007 \$000 | 2006 \$000 |
| a) Foreign exchange - forward contracts | | | | |
| United States dollars | | | | |
| Maturing in: | | | | |
| 3 months or less | 0.7653 | 0.7392 | 1,490 | 1,146 |
| Over 3 to 12 months | 0.8024 | 0.7464 | 3,302 | 3,881 |
| | | | 4,792 | 5,027 |
| Japanese yen | | | | |
| Maturing in: | | | | |
| 3 months or less | 94.23 | 84.84 | 424 | 754 |
| Over 3 to 12 months | 92.59 | 83.48 | 864 | 241 |
| | | | 1,288 | 995 |
| Korean won | | | | |
| Maturing in: | | | | |
| 3 months or less | 734.35 | 712.34 | 1,450 | 1,562 |
| Over 3 to 12 months | 747.96 | 704.17 | 2,370 | 1,940 |
| | | | 3,820 | 3,502 |
| (b) Foreign exchange – option contracts | | | | |
| | Average strike rate | | Buy amount | |
| | 2007 | 2006 | 2007 \$000 | 2006 \$000 |
| United States dollars | | | | |
| Expiring in: | | | | |
| 3 months or less | - | 0.6850 | - | 645 |
| Over 3 to 12 months | - | - | - | - |
| | | | - | 645 |
| Japanese yen | | | | |
| Expiring in: | | | | |
| 3 months or less | - | 76.00 | - | 713 |
| Over 3 to 12 months | - | - | - | - |
| | | | - | 713 |

Notes to the financial statements

| | Average strike rate | | | | Buy amount | |
|--|---------------------|---------|-------|---------|--------------|--------------|
| | 2007 | | 2006 | | 2007 | 2006 |
| | Floor | Ceiling | Floor | Ceiling | \$000 | \$000 |
| (c) Foreign exchange – collar options | | | | | | |
| Japanese Yen | | | | | | |
| Expiring in: | | | | | | |
| 3 months or less | 86.64 | 90.09 | 83.00 | 88.91 | 877 | 1,156 |
| Over 3 to 12 months | 92.44 | 96.35 | 83.10 | 87.23 | 3,145 | 1,609 |
| | | | | | 4,022 | 2,765 |

Interest rate risk

The consolidated entity's exposure to interest rate risk and the effective interest rates of financial assets as at the reporting date are as follows:

| 2007 | Notes | Floating interest rate | Fixed interest rate maturing in 1 year or less | Effective interest rate | |
|---------------------------------|-------|------------------------|--|-------------------------|---------|
| | | \$000 | \$000 | Floating % | Fixed % |
| Financial assets | | | | | |
| Cash assets | | | | | |
| Cash assets – NLIS (a) | 13(c) | 1,748 | - | 5.75 | - |
| On call deposits | | 76 | - | 5.75 | - |
| On call deposits – NLIS (a) | 13(c) | 2,243 | - | 6.15 | - |
| Term deposit – rental guarantee | | 6,020 | - | 6.15 | - |
| Bills of exchange | | 385 | - | 6.15 | - |
| | | - | 37,554 | - | 6.36 |
| 2006 | | | | | |
| Financial assets | | | | | |
| Cash assets | | | | | |
| On call deposit | | 8,868 | - | 5.50 | - |
| Term deposit - rental guarantee | | 14 | - | 5.65 | - |
| Bills of exchange | | 371 | - | 5.65 | - |
| | | - | 21,775 | - | 5.82 |

Net Fair Values

All financial assets and liabilities have been recognised at the balance date at their net fair values, except as noted below.

The net fair value of a financial asset is the amount at which the asset could be exchanged in a current transaction between willing parties after allowing for transaction costs.

| | Consolidated 2007 | | Consolidated 2006 | |
|-------------------|-----------------------|----------------------|-----------------------|----------------------|
| | Carrying amount \$000 | Net fair value \$000 | Carrying amount \$000 | Net fair value \$000 |
| Financial assets: | | | | |
| Bank bills (a) | 37,554 | 37,853 | 21,775 | 21,975 |

(a) The net fair value of bank bills is calculated to include the interest accrued as at 30 June 2007.

30. FINANCING ARRANGEMENTS

MLA has access to two funding facilities which are available under special circumstances in response to industry crises from the Red Meat Advisory Council Limited (RMAC).

A \$0.5 million (2006: \$0.5 million) emergency fund can be accessed by MLA for scoping purposes following consultation with the affected species sector/sectors. In addition, a \$5 million (2006: \$5 million) contingency fund for the management of industry crises may be accessible. Use of this facility requires a two-thirds majority decision of RMAC directors with terms and conditions as agreed by RMAC and the Commonwealth Government. No amount has been withdrawn from these funding facilities

Directors' declaration

In accordance with a resolution of the directors of Meat & Livestock Australia Limited, we state that:

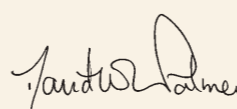
In the opinion of the directors:

- the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
 - complying with Accounting Standards and Corporations Regulations 2001; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



A. M. Heatley
Director



D. W. Palmer
Director

Sydney
13 September 2007

Independent audit report

to members of Meat & Livestock Australia Limited

We have audited the accompanying financial report of Meat & Livestock Australia Limited (the company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of recognised income and expense, and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENCE

In conducting our audit we have met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

AUDITOR'S OPINION

In our opinion:

1. the financial report of Meat & Livestock Australia Limited is in accordance with:
 - (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of Meat & Livestock Australia Limited and the consolidated entity at 30 June 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations); and
 - (b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Brian R. Blood
Partner

Sydney
13 September 2007

Glossary of terms

FREQUENTLY USED ACRONYMS

| | |
|---------|--|
| ABS | Australian Bureau of Statistics |
| AMIC | Australian Meat Industry Council |
| AMPC | Australian Meat Processor Corporation |
| AWI | Australian Wool Innovation |
| BSE | Bovine spongiform encephalopathy (mad cow disease) |
| BTEC | Brucellosis and tuberculosis eradication campaign |
| CRC | Cooperative Research Centre |
| DAFF | Department of Agriculture, Forestry and Fisheries |
| eMTC | Electronic Meat Transfer Certificate |
| FMD | foot and mouth disease |
| FTA | free trade agreement |
| ICA | industry collaborative agreement |
| KPI | key performance indicator |
| LPA | Livestock Production Assurance |
| MINTRAC | Meat Industry Training Advisory Council |
| MLA | Meat & Livestock Australia |
| MoU | Memorandum of Understanding |
| MSA | Meat Standards Australia |
| NLIS | National Livestock Identification System |
| NLRS | National Livestock Reporting Service |
| NVD | National Vendor Declaration |
| OH&S | occupational health and safety |
| QA | quality assurance |
| R&D | research and development |
| SMEQ | sheepmeat eating quality |
| WTO | World Trade Organization |

Meat & Livestock Australia supports the red meat and livestock industry by working collaboratively to build demand, increase market access, develop a competitive advantage through research and development and increase industry capability.

Practical information and tools from our activities are promoted through:

- publications
- events
- media
- online

For more information on publications, events or media activities, or our programs go to www.mla.com.au or call **1800 675 717**.

Auditors

Ernst & Young

Lawyers

DLA Phillips Fox

Bankers

Commonwealth Bank of Australia

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