



MLA annual report

2005-06

Contents

1	Highlights 2005-06
2	What we do and Where we're located
3	Our members and staff
4	Who benefits from our work
5	Our markets
6	Five years at a glance
7	Our financial position
8	Chairman's report
10	Managing director's report
12	REVIEW OF OPERATIONS
13	Markets and consumers
14	Domestic trade and consumer promotion
16	Export trade and consumer promotion
19	Trade development – live exports
20	Market access
21	Red meat innovation
22	Co-products
23	Product initiatives
24	Meat safety/issues management
26	Meat Standards Australia
27	Community concerns
28	Environment – resource management
29	Animal welfare – on-farm
30	Animal welfare – live export
31	Whole-of-chain efficiency
32	Improving productivity
36	Adoption and capacity
38	Supply chain initiatives
39	Market information
41	Strategic research and development
43	Other initiatives
44	Industry and corporate communication
46	Live export standards
47	Research and development partnerships
48	Corporate services
50	CORPORATE GOVERNANCE
51	Directors' report
54	Corporate governance statement
57	Auditor independence declaration
59	FINANCIAL STATEMENTS
60	Income statement
61	Balance sheet
62	Statement in changes in equity
63	Statement of cash flows
64	Notes to the financial statements
87	Directors' declaration
88	Independent audit report

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
- federal government dollar-for-dollar funds for investment in R&D
- cooperative 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

HIGHLIGHTS 2005-06



The launch of the phase II of our 'Red Meat. Feel Good' campaign – '**Foundation Food**' – has been successful in reducing barriers to red meat consumption. [Page 14](#)



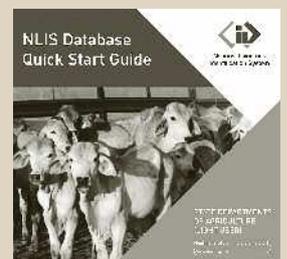
For the second consecutive year, our *Korean Hoju Chungjung Woo* brand won **Brand of the Year** in the food category. [Page 17](#)

Concerns over halal processing protocols were addressed, reopening the **Malaysian market**. [Page 20](#)



After exhaustive liaison and campaigning on behalf of industry, the **WTO Doha Round** broke down in a stalemate. This was a disappointing result, however we will continue to put industry's case to government for future negotiations. [Page 20](#)

The **NLIS database** interface was upgraded and *Quick Start Guides* distributed to support users in the national implementation of NLIS – daily database usage increased 400% this year. [Page 25](#)



A heightened focus on addressing **community concerns** was reflected in our work on industry integrity, natural resource management and through publications like *Fit to load* – 90,000 copies distributed to date. [Page 27](#)

Sheep Genetics Australia launched forming one single sheep genetics currency covering meat and wool – Australian estimated breeding values (ASBVs). [Page 33](#)

Going into Goats manual, detailing the key principles for managing a profitable goat enterprise, was launched in May attracting extensive media and producer interest. [Page 34](#)



Our web-based **Rainfall to Pasture Outlook tool** was awarded fourth place in *Business Review Weekly's* Top 10 innovative new products. [Page 42](#)

Frontier magazine, showcasing on-farm applications of R&D outcomes for northern production systems, was launched in May. [Page 44](#)

A successful **World Meat Congress** was hosted in Brisbane in April, showcasing the Australian industry to 700 local and international delegates. [Page 45](#)



The case for an additional \$1.50 **beef levy** for marketing activities communicated to and endorsed by industry, securing an additional \$21 million annually flowing into a number of programs from January.

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 COMPETITIVE ADVANTAGE

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

PARTNER INDUSTRY TO BUILD 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.

Where we are located

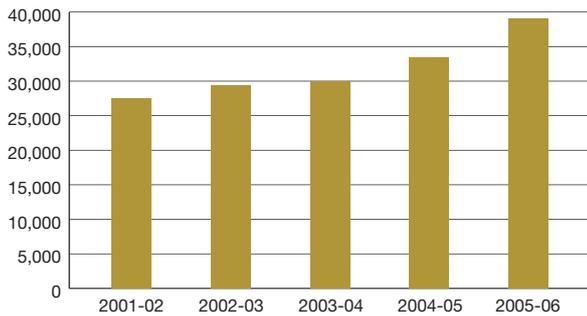


Our staff is based strategically to leverage the best possible access to both stakeholders and markets.

Our members and staff

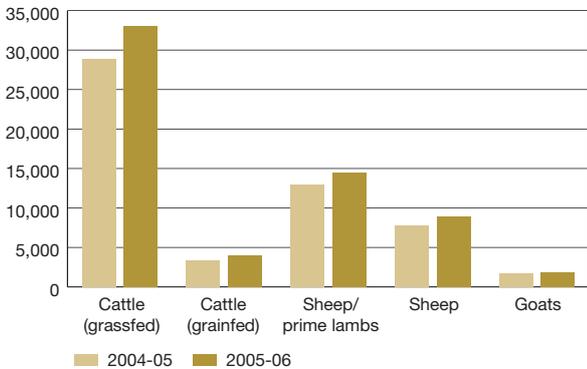
OUR MEMBERS

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 17% this year to reach 39,086 – up 42% over the last five years.



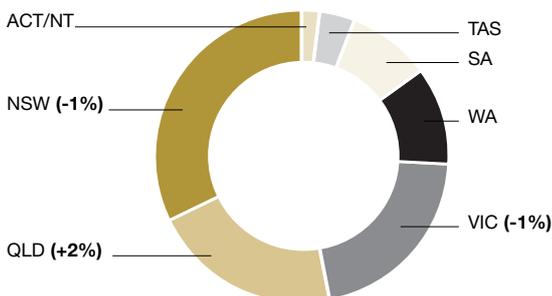
Members by activity

The increase in membership was reflected consistently across each sector.



Members by location

The percentage of members by location has remained relatively stable compared with last year with minor variations in New South Wales, Queensland and Victoria (indicated in brackets on the chart below).



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. Our board, executive and some staff are profiled throughout this report.

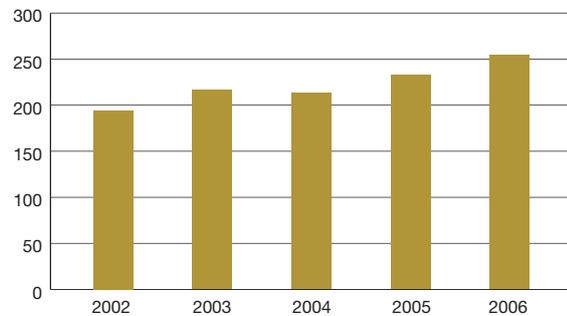
Staff numbers increased 10% this year reflecting reduced vacancies, the increased level of investment in research and development – up 76% over the last five years – and additional staff to support the national roll out of the National Livestock Identification System. (See pages 25 and 78.)

Below is a summary of staff statistics.

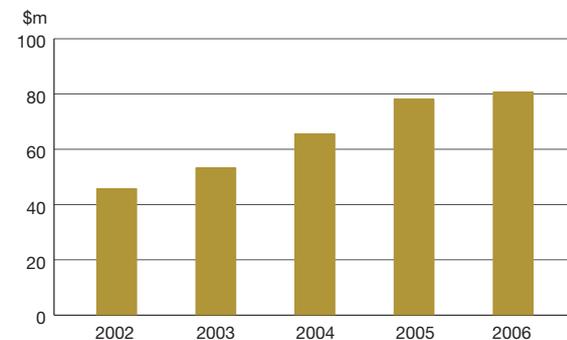
- 254 staff globally
- 174 permanent employees based in Australia
- 35 permanent employees based overseas
- 45 fixed term employees
- 55% male
- 45% female

60% of employees have a rural background (defined as holding tertiary qualifications, affiliation through family, or previous employment in the agriculture industry)

Staff numbers



Research and development expenditure



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.

	Economic	Environment	Social
Producers <ul style="list-style-type: none"> We investigate and provide science-based solutions and management tools to help improve the productivity and sustainability of farming enterprises We promote red meat and shore up market access to build demand We collect, analyse and disseminate market information that supports business decisions 	✓ ✓ ✓	✓ ✓	✓ ✓
Processors <ul style="list-style-type: none"> We investigate and provide science-based solutions and management tools to improve processing efficiency, plant management and occupational health and safety We investigate new and innovative uses for co-products to gain maximum use of the carcass and provide new, untapped markets 	✓ ✓	✓ ✓	✓ ✓
Exporters <ul style="list-style-type: none"> We work to maintain and increase market access We undertake promotional activities and build relationships in overseas markets to support Australian products 	✓ ✓		✓ ✓
Live exports <ul style="list-style-type: none"> We work with the industry, locally and in overseas markets, to improve animal welfare and maintain and grow markets 	✓		✓
Government <ul style="list-style-type: none"> We align our programs with government's priorities and collaborate with other RDCs to maximise government's and industry's return on investment 	✓	✓	✓
Environment <ul style="list-style-type: none"> We work with government and industry to provide science-based solutions to minimise the impact on the environment 		✓	✓
Retailers <ul style="list-style-type: none"> We promote red meat and provide in-store support We develop innovative red meat products and meal ideas that respond to consumer trends 	✓ ✓		✓ ✓
Consumers <ul style="list-style-type: none"> 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 <ul style="list-style-type: none"> We invest in the development of world-class scientists and researchers to build Australia's research and development human capabilities We foster growth in the value of 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 	✓ ✓ ✓ ✓ ✓		✓ ✓ ✓ ✓ ✓
Staff <ul style="list-style-type: none"> We have policies to ensure a fair and safe workplace that supports staff development and further education 	✓		✓

Our markets

Cattle prices and producer incomes

Cattle prices again reached record levels in 2005-06 and have risen substantially over the past decade, even after adjusting for inflation. This buoyant market has been driven by a lift in domestic and overseas demand and trade restrictions affecting our main competitors due to disease. As a result, average beef producer incomes have been historically high despite the drought. However, incomes are estimated to have fallen in 2005-06, with a drop in cattle sales (to rebuild herds) lowering receipts and the ongoing drought impacting herd productivity and farm costs.

Domestic consumer expenditure on beef

Estimated Australian consumer expenditure on beef grew by a further \$390 million, or 6.5% in 2005-06, to \$6.4 billion, bringing the jump since 2000-01 to almost 50%. This has been associated with strong consumer spending generally, 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 fell 7% in 2005-06, to \$4.54 billion, from the record reached in 2004-05, due to lower beef supplies, a higher A\$ and a drop in US import demand. However, export revenue was still 16% up on 2002-03 and has risen 85% over the past decade. Almost half this came from sales to Japan (\$2.2 billion), which have jumped by 57% since the banning of imports from the US in December 2003.

Lamb prices and producer incomes

Rising 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 \$48,000 per farm (ABARE). Those producers not in drought have been able to maintain or increase incomes, with the top 25% of lamb specialists having a farm income of \$250,000 and a rate of return of 16% (including capital appreciation).

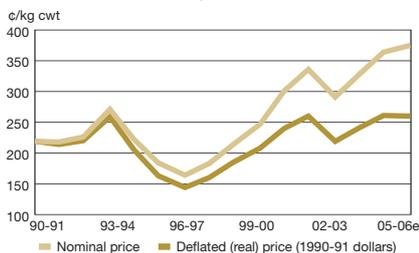
Domestic consumer expenditure on lamb

Better lamb quality, improved product presentation and marketing, a general lift in the health image of red meats and a strong economy, have all combined to raise Australian consumer interest in lamb both in the home and at restaurants. Expenditure on lamb is estimated to have risen by around 80% over the past decade, including a further 4.5% rise in 2005-06, to \$1.78 billion.

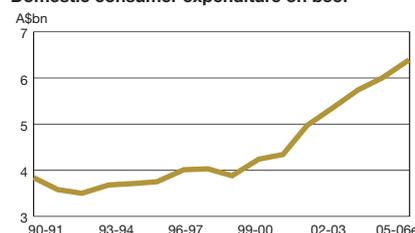
Lamb exports

The value of lamb exports rose a further 12% in 2005-06, to a record \$782 million (ABS data), with volume also a record, up 16% to 143,000 tonnes (DAFF data). Lamb export value has increased by almost 300% in the past decade and volume almost 200%. 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 rose to all major markets in 2005-06, particularly to Japan (up 58% to \$93 million), the Middle East (up 41% to \$72 million) and the US (up 5% to \$314 million).

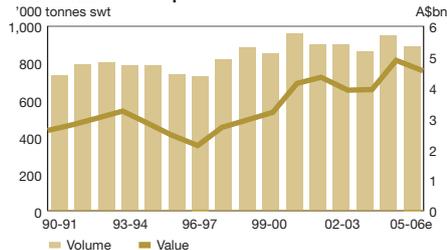
Australian trade cattle price



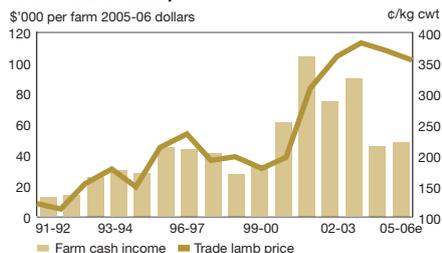
Domestic consumer expenditure on beef



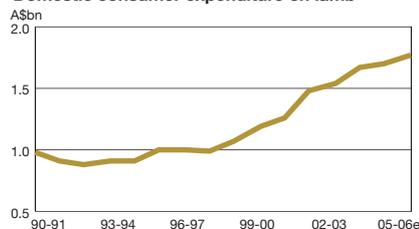
Australian beef exports



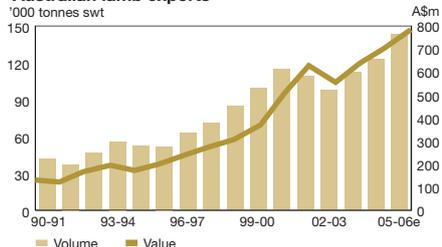
Real specialist lamb farm cash incomes and nominal lamb price



Domestic consumer expenditure on lamb



Australian lamb exports



Five years at a glance

	2005-06	2004-05	2003-04	2002-03	2001-02
Industry					
Industry value	\$15.00bn	\$14.69bn	\$13.42bn	\$13.17bn	\$13.24bn
Value of beef (domestic)	\$6.39bn	\$6.00bn	\$5.74bn	\$5.37bn	\$4.97bn
Value of lamb (domestic)	\$1.78bn	\$1.70bn	\$1.67bn	\$1.54bn	\$1.48bn
Value of beef (export)	\$4.54bn	\$4.88bn	\$3.93bn	\$3.91bn	\$4.33bn
Value of lamb (export)	\$782.0m	\$700.5m	\$636.5m	\$553.8m	\$626.3m
Value of goatmeat (export)	\$82.2m	\$70.6m	\$49.2m	\$46.9m	\$46.1m
Meat & Livestock Australia					
Revenue total	\$154.6m	\$140.2m	\$136.5m	\$123.6m	\$110.7m
Levies income	\$82.0m	\$72.2m	\$71.4m	\$69.2m	\$67.4m
Government contributions	\$41.8m	\$40.0m	\$34.9m	\$30.9m	\$23.9m
Processors and live exporters contributions	\$12.8m	\$13.0m	\$11.7m	\$13.3m	\$11.2m
Expenditure total	\$158.6m	\$139.7m	\$130.5m	\$117.1m	\$107.7m
R&D expenditure	\$80.6m	\$78.0m	\$65.4m	\$53.1m	\$45.6m
Marketing expenditure	\$78.0m	\$61.7m	\$65.0m	\$64.0m	\$62.0m
Corporate services expenditure	\$8.7m	\$7.7m	\$7.3m	\$7.6m	\$7.2m
Surplus (current year)	-\$4.0m	\$0.5m	\$6.1m	\$6.5m	\$3.0m
Surplus (retained)	\$29.9m	\$33.9m	\$33.4m	\$27.3m	\$20.8m
Staff numbers	254	234	213	216	194
Membership	39,086	33,391	30,011	29,354	27,566

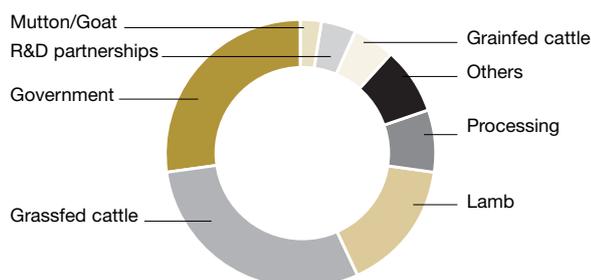
Source: MLA, ABS, ABARE, DAFF

Our financial position

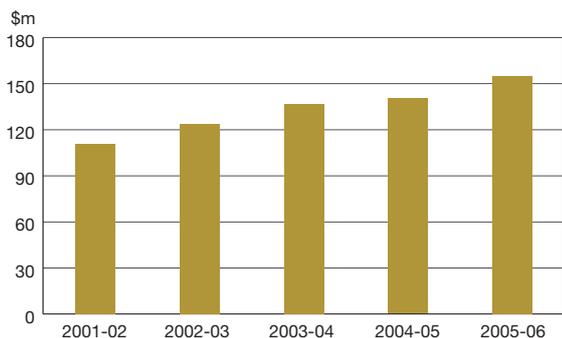
Revenue

Total revenue for 2005-06 was \$154.6m, an increase of 10.3% on 2004-05 (\$140.2m). The largest increase came from the cattle transaction levy as a result of an increase in levy rate from \$3.50 to \$5.00 effective from 1 January 2006.

Revenue over 2005-06



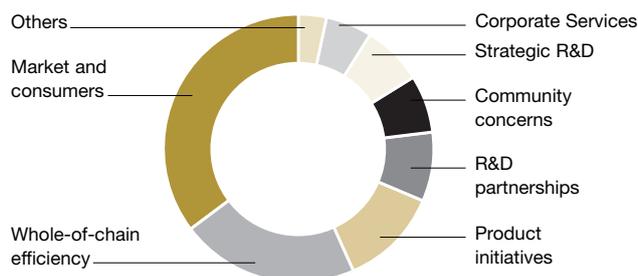
Revenue over 5 years



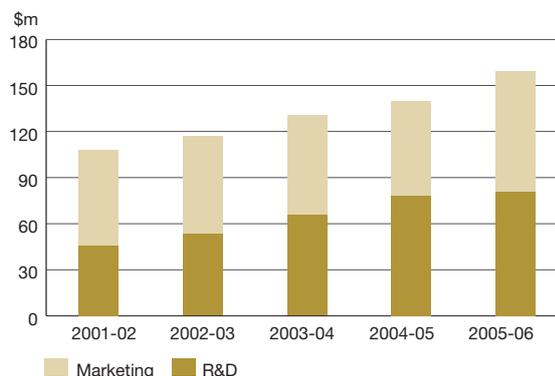
Expenditure

Total expenditure for 2005-06 was \$158.6m an increase of 13.5% on 2004-05 (\$139.7m). The increase mainly resulted from additional domestic and international marketing activities which were funded by the increase in the cattle transaction levy.

Expenditure 2005-06



Expenditure over 5 years



	2005-06 \$000	2004-05 \$000
REVENUES FROM ORDINARY ACTIVITIES	154,560	140,194
EXPENDITURE		
Markets and consumers	55,632	44,326
Product initiatives	19,012	17,738
Community concerns	11,022	12,360
Whole of chain efficiency	33,930	30,589
R&D partnerships	13,295	13,087
Strategic R&D	11,352	9,576
Corporate services	8,691	7,741
Other	5,654	4,234
Total expenditure	158,588	139,651
NET (DEFICIT)/ SURPLUS FROM ORDINARY ACTIVITIES	(4,028)	543

Retained surplus

An excess of expenditure over revenue during the year resulted in a deficit of \$4.0m, compared with a surplus of \$0.5m in 2004-05. The retained surplus as at 30 June 2006 was \$29.9m, \$4m down on last year (\$33.9m). This surplus is broken down by species as follows:

Grassfed cattle	\$14.3m
Grainfed cattle	\$4.6m
Lambs	\$9.6m
Sheep	\$0.8m
Goats	\$0.6m

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

Challenges and opportunities

Strong demand for Australian red meat and livestock has continued to provide the platform for the growth that has been experienced over the past 12 months. Australian consumers spent an extra \$389 million on beef and an extra \$71 million on sheepmeat during the year – a tremendous result in our largest market.

While we have had our fair share of challenges during the year, some exciting opportunities have also emerged. However, throughout the highs and lows, it is crucial we never lose sight of the need to meet the demands of our consumers, the heightening expectations of our community and, of course, our own requirements for a profitable and sustainable industry.

CONSUMERS

International markets

The potential growth in demand on our doorstep represents a significant opportunity for Australian red meat exports. All indications are that global meat markets will have strong growth over the next decade, with Asia featuring prominently. Even excluding China and India, beef consumption in Asia is forecast to grow by over half a million tonnes by 2015, with the major growth areas being South Korea, Indonesia and the Philippines. Add China to the mix and this figure will grow by another three million tonnes over the same period. Global sheepmeat consumption is also expected to increase, by about 25%, with China again a significant contributor.

Over the year, with the US market still affected by the BSE detections in 2003, Australia's beef exports fell by 7% on the previous year, though chilled beef exports grew by 15%. However, in Japan, the continued absence of US beef saw Australia's share of this important market reach 52%. Our lamb exports to Japan also increased, jumping by 58% to reach \$93 million, and exports of lamb to South-East Asia were up 13% in value.

Though global demand for red meat is on the rise, competition in these markets is intensifying. The competitive environment within the global beef and sheepmeat industries has always been tough, with pork and poultry representing significantly cheaper protein sources, but it is competition from alternative beef and sheepmeat suppliers that looks set to intensify over the next 10 years. For sheepmeat, the most likely source of competition is China, and for beef, the pressure already being felt from low-cost Brazilian and Indian product is only likely to increase.

In the Middle East, despite the availability of cheaper Brazilian beef imports and low-priced chicken affecting

Australia's sales in the first half of the year, beef sales increased by 20% in this market. Sheepmeat sales also increased significantly, by 35% for lamb and 27% for mutton.

The premium position our chilled beef enjoys in Europe continued despite cheaper South American product also competing in this market. A particular success was achieved in Russia, which saw a significant growth in volumes of Australian beef, lamb, mutton and offals on its shelves.

While Australia has been successful in differentiating its product from those of our lower priced competitors, the increasingly competitive environment puts significant pressure on producers to improve productivity, while continuing to meet the high expectations of our customers around the world for safe, high quality product.

Market access

Our success in international markets is dependent on a fundamental prerequisite, access to those customers, and hence market access is critical. This was a challenging year with Australian red meat sales affected by a host of market access issues including halal issues with Malaysia, and plant accreditation issues with China.

The ongoing difficulties in achieving an outcome in the World Trade Organization Doha Round are seeing a proliferation of free trade agreements which both create opportunities and pose threats for the Australian industry. We must ensure the ambitions of our industry remain high on the government's priority list.

Consumer trends

While we usually talk about our markets in a geographical sense, we must not overlook the changing demographics within these markets. Worldwide populations are aging. For example, by 2015 the Australian population is forecast to increase by 6%, but the group of over 65s is forecast to increase by 32% in the same period. In Japan, while the total population is forecast to fall by 2015, the number of over 65s is expected to increase by a third. With aging populations and the consequent increased dietary-induced diseases, communicating the nutritional benefits of red meat in the diet is of growing importance.

Another emerging trend in our consumer base is time impoverishment and the degradation of cooking skills. This has obvious implications for the positioning of secondary cuts of red meat in the marketplace with the increasing need for quick meals that are easy to prepare.

While the growth in discount retailing has not yet impacted on Australia, which has instead seen a

resurgence of butcher shops and premium retailers, our global markets are certainly changing. In parts of Europe, the market share held by discount retailers has grown four-fold over the last decade, and is likely to continue. This, and the increasing globalisation of retail, will have a significant impact on the way we market our red meat.

COMMUNITY

The Australian red meat and livestock industry must continue to show the highest regard for its resources – the land, animals and people that make the industry sustainable – and meet the expectations of the community within which it operates.

The responsible management of our land, conservation of water and animal welfare are equally critical to the viability our industry. Community beliefs about good corporate citizenship and social responsibility are increasingly influencing consumer decisions

There is still a recognisable divide between city and country in Australia, with nearly half of the population aged under 35 never having visited a farm. In the face of this detachment, we must be vigilant about our status as responsible custodians to maintain the confidence and support of the community.

The increasing attention paid by animal activists to the livestock industry continues to pose an unwelcome challenge. While the industry should continue to engage with animal welfare groups to ensure our livestock are treated in the manner the community and all good producers expect, animal rights activists will continue to be treated as a radical fringe with unrealistic expectations of the food production industry.

INDUSTRY

We have seen another year of strong prices for our product yet the industry's income has been hampered by drought.

We must continue to be responsive to consumer signals and community expectations, while using the tools available to remain economically viable. Industry programs such as eating quality and supply chain management assist all sectors to become increasingly market responsive.

Genetic improvements have the potential to deliver cattle and sheep that are more productive, more fertile, disease-resistant, easier to manage and, after all that, produce better meat.

The cost of disease has undoubtedly risen over the last decade and will almost certainly rise further. Foot and



Don Heatley
Chairman

mouth disease in the UK has been estimated to have cost \$12.4 billion, and in Taiwan around \$8.9 billion. There is no question that trade-restrictive diseases, such as FMD and BSE, have significantly advantaged Australia over many years, but these sorts of figures are a sobering reminder of the importance of continued vigilance to ensure our disease prevention measures are the best available.

Drought has had an extreme impact on Australia's red meat producers over the past five years. While we all hope it is close to ending, predictions of another El Nino and forecasts indicating that next year's winter cereal crop will be down around 40% mean we need to again look at how we manage our pasture, our livestock, our business and, particularly, our own personal welfare.

Most importantly, we must continue to invest in tomorrow's agriculture, building industry skills and awareness of local and international business challenges.

We operate in a complex environment, affected by important economic and social factors, and we must take these into consideration in our planning so as to be in the best position to tackle the challenges and harness the opportunities that will face the industry over the coming years.

Our industry has a unique advantage in being united through its service delivery company, MLA. This unity provides a strong platform to meet the challenges and capture the opportunities ahead.

A handwritten signature in dark ink, appearing to read 'D. Heatley'.

Don Heatley
Chairman

This year has been one of rebalancing after four successive years of surpluses totalling \$16.1 million. Primarily, achievement of a significant number of milestones across the business and additional investment in industry programs has reduced reserves by \$4.0 million to \$29.9 million.

Revenues totalled \$154.6 million for the year compared with \$140.2 million for 2004-05, an increase of \$14.4 million. Levies revenue was up \$9.8 million with the balance of the increase spread across a number of areas including government matching funds and cooperative funding.

The increase in levies was mainly due to the increase in cattle transaction levy endorsed by industry in July 2005 and effective from 1 January 2006. These additional funds support increased marketing activities to build demand for beef both in Australia and overseas.

Building demand

A key driver of prosperity for our industry is consumer demand. For this reason MLA invests significantly in a suite of activities designed to reinforce the positive attributes of red meat. This year, we launched the second phase of our 'Red Meat. Feel Good' campaign, 'Foundation Food', designed to support the fact that we are meant to eat red meat. The campaign's centrepiece, two TV commercials featuring actor Sam Neill, achieved our highest yet impact scores with audiences. The campaign has already seen positive shifts in consumer attitudes towards red meat.

Our domestic lamb marketing campaign again helped to drive another successful year for lamb, with domestic expenditure up 4.5% to \$1.78 billion. Lamb's domination of Australia Day continued with our 'Sam Kekovich' commercials generating an additional \$2.3 million in publicity, and driving lamb consumption in January 2006 up three million serves per week, 14% higher than in January 2005. In May, the launch of the new 'Lâmb' promotion saw lamb servings up 1.5 million per week during that month.

In export markets, lamb achieved record value and volume this year, up 12% and 16% respectively. The value of beef exports, however, was down 7% on last year's highs, but still 16% above 2003-04. Our key focus in the international arena has been to reinforce and strengthen the positioning of Australian red meat as a premium, clean and safe product. This positioning is central to our capacity to hold volumes with the resumption of US exports into key North Asian markets.

In Japan, these activities have assisted in changing attitudes, with surveys showing 91% of the trade believing that Aussie Beef had improved over recent years, and Tokyo housewives indicating that they now

believe Aussie Beef to be significantly better than US beef on key quality and safety attributes. In South Korea, our work in building awareness of the 'Hoju Chungjung Woo' brand has been again recognised, winning the food category Brand of the Year for the second consecutive year.

Increasingly, community perceptions will influence consumer decisions, accordingly, we have strengthened our portfolio of programs acknowledging and addressing areas of community concern, especially pertaining to animal welfare. We have undertaken extensive work both in Australia and in our export markets to provide information, infrastructure and training to support acceptable animal welfare practices. For example, we have installed restraining boxes in Asia, delivered animal handling training in Asia and the Middle East, and at home distributed around 90,000 copies of a guide to safe transport of livestock – *Fit to load*.

Market Access

The tenuous nature of market access demands constant attention, and this year we had our share of highs and lows. A disappointing outcome for sheepmeat access to the European Union was acknowledged by government and we will continue to push for improved access. However, we were successful in a favourable revision of the Japan safeguard for 2006-07, and in resuming trade to Malaysia following closure over halal production protocols.

One of the biggest challenges this year, both for MLA and for industry, was the completion of the rollout of NLIS (National Livestock Identification System) and ensuring that we had a database that enabled stakeholders to meet their legislative requirements. With the introduction of the state legislation underpinning the NLIS, the database saw a 300% increase in farms registered to 143,000; NLIS tags also increased 300% to 30 million; daily usage increased 400% to 2,700 daily interactions; and on average we now record 96,000 cattle movements each day.

The building blocks and framework for the Australian cattle industry's world-class traceability system are now in place, providing a platform for our differentiation on integrity and food safety. This and many other capabilities and systems were showcased to the world meat industry as MLA played host to over 700 international delegates at the 2006 World Meat Congress, held in Brisbane in April.

Developing a competitive advantage

Our work in building demand and market access is complemented by a substantial portfolio of programs to enhance industry's competitiveness. These programs are designed to provide the tools and systems to enable

individual enterprises to continually improve their productivity.

Genetics has been a key tool for productivity gains, and the launch of Sheep Genetics Australia (SGA), a collaborative program with Australian Wool Innovation, has set the platform for further growth in genetic gains for the Australian sheep industry. Bringing together a number of genetics databases, SGA provides a single national database of the genetic merit of 2.7 million sheep allowing producers to assess the genetic information on 56 traits.

A practical approach to supporting on-farm productivity resonated through our Southern Beef program. The delivery of tools, such as web-based cost of production and feed demand calculators, support on-farm decisions and promote efficient farm management.

Additionally, producer's ability to predict pasture growth was significantly enhanced with the release of our web-based Rainfall and Pasture Outlook tool. This ground-breaking tool shows actual rainfall indices of soil moisture and pasture growth for the previous nine months and the outlook for the next three at over 3,300 locations. Business Review Weekly ranked the tool fourth in their Top 10 innovative new products.

Our Going into Goats manual, launched during the year, is a whole-of-farm guide to managing a profitable goat enterprise. The guide which attracted extensive media and producer interest reflecting the increasing number of producers recognising the potential benefits of including goats in their operation.

Industry's ability to attract and retain staff is intrinsically linked to its image as a safe workplace. Potential losses from injuries to bandsaw operators in processing facilities and butcher shops were reduced with the roll out of BladeStop, a sensing system for bandsaws that is able to sense the difference between a piece of meat and the operator's hand. Funded through the MLA Donor Company, from commercial companies and matching government R&D funds, the technology is currently being installed in 20 processing plants.

Building producer capacity

The impact from our work in developing services and solutions for a competitive industry is only realised through industry adoption. To build awareness and encourage adoption of our R&D outcomes, we deliver a suite of extension activities, many in partnership with industry and other research agencies.

Through our collaboration in the Grain & Graze program, over 7,300 producers attended more than 130 field days and seminars focusing on improving financial performance and enhancing sustainability through



David Palmer
Managing
director

improved management of weeds, soils, water and biodiversity.

In addition, we collect, analyse and disseminate market information, providing industry with tools to support business decisions. Meat & Livestock Weekly reports all the week's market news within 24 hours of the close of markets. Although free to members, there are currently only 2,200 subscribers. Plans have been developed to increase this circulation over the next year.

Our people

To deliver on our obligations to industry, MLA aims to attract and retain high calibre staff. This year, we strengthened the linkage between performance and reward making sure we have the right skills and expertise to deliver world-class services and solutions to industry.

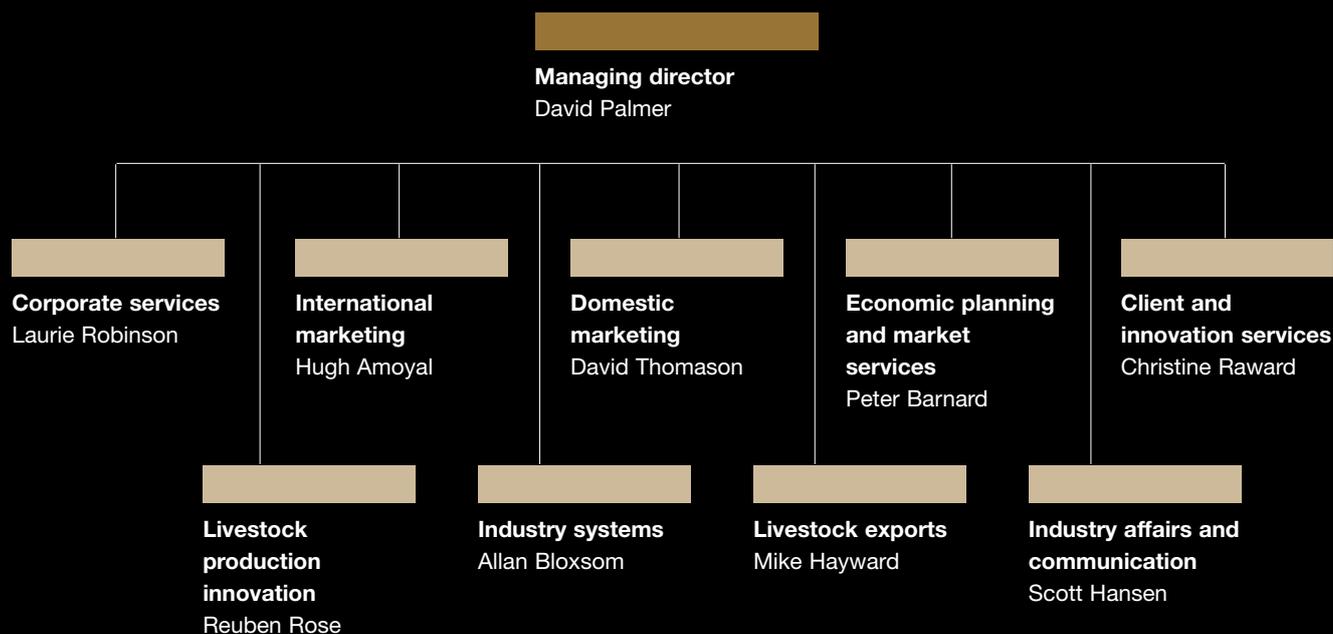
Our people will always be the driving force behind our success. Collectively, the MLA team brings together a vast breadth and depth of talent and experience fired by a passionate commitment to our industry. Many are leaders in their field, many have years of experience in agriculture or food-related businesses, and many have strong connections to the land through their family background.

I would like to take this opportunity to acknowledge the dedication that drives our people to make our industry a world leader in every aspect. Their efforts through 2005-06 are reflected throughout the pages that follow.

A handwritten signature in black ink that reads "David Palmer". The signature is fluid and cursive, written over a light-colored background.

David Palmer
Managing director

REVIEW OF OPERATIONS



13 Markets and consumers

- 14 Domestic trade and consumer promotion
- 16 Export trade and consumer promotion
- 19 Trade development – live exports
- 20 Market access
- 21 Red meat innovation
- 22 Co-products

23 Product initiatives

- 24 Meat safety/issues management
- 26 Meat Standards Australia

27 Community concerns

- 28 Environment – resource management
- 29 Animal welfare – on-farm
- 30 Animal welfare – live export

31 Whole-of-chain efficiency

- 32 Improving productivity
- 36 Adoption and capacity
- 38 Supply chain initiatives
- 39 Market information

41 Strategic research and development

43 Other initiatives

- 44 Industry and corporate communication
- 46 Live export standards
- 47 Research and development partnerships
- 48 Corporate services

MARKETS AND CONSUMERS

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



Samantha Jamieson,
regional manager Japan

Sam was raised on a farm, near Cowra in New South Wales.

“As a kid I was a real farm girl, always helping Dad out. I particularly liked looking after the baby lambs and calves that had lost their mothers. At one stage, I had 32 pet lambs that I had to hand feed everyday. I also loved cooking, and helping prepare meals from fresh produce grown on the farm. It is a real joy to be able to combine two of my great loves, food and agriculture into my working life.”

At high school, Sam studied Japanese and developed a passion for Japan. After obtaining a Bachelor of Commerce (Economics) from the University of New South Wales, she travelled to Japan to study Japanese, living with a Japanese family in Tokyo for two years.

Returning to Australia in 1991, Sam started to work for the Australian meat industry as a market analyst. After completing a Masters of Commerce (Marketing and Japanese Business Communication) Sam expanded her role into managing market development and marketing projects first in Singapore, and then Japan.

As our regional manager Japan for the last five years, Sam is responsible for developing strategy and implementing Aussie Beef and Aussie Lamb marketing programs for the Japanese market. Under her guidance, exports of beef and lamb have expanded considerably, now worth around \$3 billion to the Australian red meat industry.

“We’ve had some great successes in Japan, expanding market share and popularity of both Aussie Beef and Aussie Lamb – 52% of all beef consumed in Japan is Aussie Beef, and lamb exports to Japan have doubled over the past couple of years to become our second largest export market. In the year ahead, we’ll be focusing on consolidating the gains made over the past couple of years by enhancing customer loyalty and demand for Aussie Beef.”

Sam and her Australian husband, Phil, who works as a lawyer in Tokyo, both enjoy living in Japan, particularly travelling around the Japanese countryside and skiing... when time permits!

Domestic trade and consumer promotion

INVESTMENT (Beef and lamb)



PROGRAM OBJECTIVE

Grow domestic demand for beef, lamb and mutton

KPIs

- Consumer expenditure up \$300m for beef, \$100m for sheepmeat
- Reduce nutritional barriers to red meat consumption
- Grow end-user adoption of eating quality science and systems

OUTCOMES

- Estimated expenditure on beef up \$390m, sheepmeat up \$71m
- New 'Foundation Food' campaign significantly reduced resistance
- MSA grading up 2.8%, SMEQ estimated impact 50% of market

BENEFITS

- Stronger livestock prices
- Stronger long-term demand

FUTURE

- New beef promotional campaign launch in October 2006
- Continue roll out of Foundation Food strategy
- Increase industry integrity activities

Consumer demand for red meat continued to grow during the year, assisted by increased promotional activity arising from the increased cattle transaction levy.

Beef

With beef's significant contribution to the joint 'Red Meat. Feel Good.' nutrition campaign, limited funds were again available for specific beef promotion. In July 2005, a 'Kids Love Beef Mince' promotion was undertaken through magazines, retailers and publicity activities.

An extensive domestic beef campaign, funded from the increase in levies, was developed for launch in early 2006-07.

Lamb

Lamb's overall success this year has been supported by a series of promotions delivering good results.

In Spring 2005, the popular 'Stuart' commercial returned and again achieved good results, helping push lamb's share of household meat purchases for October up from 18.7% in 2004 to 19.8% in 2005.

The controversial Sam Kekovich Australia Day Lamb campaign again made lamb the talk of the country, with surrounding publicity valued at \$2.3 million, up on last year's estimate of \$2.1 million. Importantly, weekly lamb serves for January increased 14%, three million per week higher than January 2005.

In May, Mother's Day saw the introduction of a new lamb TV commercial, "Lâmb". Its cheeky take on women's fragrance advertising helped drive lamb servings to 28 million serves a week during May, compared with 26.5 million per week in May 2005.



The new 'Lâmb' campaign was launched in May

Strong retailer support for these promotions has been instrumental in driving these results.

Nutrition

The 'Foundation Food' phase of the Red Meat. Feel Good. campaign launched in March has produced a good response. Two TV commercials, featuring actor Sam Neill, achieved our highest 'impact' scores to date with positive shifts in consumer attitudes. Its message, that we are meant to eat red meat, is reinforcing red meat's role as a central part of a healthy diet, providing a rich source of essential nutrients.

Adding to this success, seminars on diet and human evolution were held in conjunction with the Nutrition

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 quality improvements, new product development and impactful promotion, all of which underpin MLA's reputation for marketing excellence.



'Foundation Food' campaign featured actor
Sam Neill

Society of Australia and Dietitians Association of Australia. Key international experts addressed over 300 health professionals and another 3,500 received the seminar highlights.

Through research partners, we invested in 13 nutrition studies during the year. Findings are published in peer-reviewed academic journals and are communicated to health professionals through symposia, conferences, medical media and patient materials. One study of the effect of diet on skin health and acne in teenagers provides opportunities for us to address the red meat consumption fall-off often seen among teenage girls.

Trade

As the majority of household meal decisions are being made in-store, our objective in retail is to continually raise standards to meet consumer needs and inspire meal decisions in favour of red meat.

Our work with the major supermarket chains has the advantage of being able to directly influence their supply chain. Through activities including shopper research, promotions and the development and adoption of appropriate science and systems, we helped to improve the overall performance and customer appeal for beef and lamb.

The success of our Red Meat Networking Club continues to grow. This group of 1,100 progressive retail butchers participated in market tours, trade nights, information sharing and promotional activities. Many are now making

significant investments in upgrading store presentation, product quality and range and service standards.

We play a similar role in the foodservice sector to maintain leadership and improve standards for red meat across a fragmented end-user base. We provided information on red meat through opinion leaders, networks, direct mail, trade shows and study tours. Our *Chef's Special* quarterly magazine, distributed to 13,000 foodservice decision-makers, is highly regarded as a valuable and credible resource.

Product performance

Eating quality is paramount, and the science and systems of Meat Standards Australia (MSA) continue to help retail and foodservice offer consistent quality to consumers. Our training continues to reinforce MSA specifications and the extended product offerings possible using this system, and our Brand Support program helps MSA-underpinned brands to become established in the marketplace.

This year, the incorporation of Sheepmeat Eating Quality (SMEQ) science and systems into the MSA program means that we can now promote a common red meat standard to end-users. While our targets for SMEQ were not met due to some resistance, it would appear that future uptake of the science will ensure broader acceptance in the domestic market.

Beef integrity

We instigated a program to strengthen the community's trust in beef production. The program aims to help bridge the growing gap between urban and rural Australians by building knowledge of, creating a human bond with, and providing an experience of, the beef industry.

Work this year focused on developing a strategy to deliver long-term results, and conducting research to understand current attitudes and develop key messages to support the strategy. We further developed the 'Our stake in the ground' exhibition for Brisbane and Adelaide royal shows, supported an *Australian Women's Weekly* promotion celebrating inspiring rural women, and provided a beef industry case study for inclusion in the *Australian Financial Review's* business case studies for secondary school students.

Export trade and consumer promotion

INVESTMENT



OBJECTIVE

Grow demand for Australia red meat internationally

KPIs

- Korea, Japan chilled beef market share 15 percentage points above 2003 levels
- Grow export lamb sales by 3%
- Improve Australian beef's image globally

OUTCOMES

- Australian beef has 52% share of Japanese market
- Value of lamb exports increased 12%
- 91% of Japan trade believe Aussie Beef's image has improved

BENEFITS

- Hold market share on US re-entry
- Increase profitability for lamb producers
- 'Clean, safe' image underpins our market positioning

FUTURE

- Implement category management pilot to support Korean market share
- Continue to raise awareness, demand for lamb
- Work towards Mexican trade liberalisation

We undertake a range of activities in our international markets to grow the volume and value of red meat exports. Our work includes consumer advertising and communications to maintain the premium image of Australian product; educating buyers on how to specify our products to best suit their quality requirements; and supply chain work in collaboration with retailers, importers and exporters to improve the cost-efficiency and the reliability of our product and service. We also conduct extensive consumer research to ensure our marketing programs are accurately targeted, and to provide exporters with valuable insights into our international markets.

This year has seen a number of records achieved. Collaboration with exporters, through industry collaborative agreements (ICAs), is at an all time high; for the first time beef exports to Korea exceeded 100,000 tonnes; and lamb exports to North America, Japan, China and the Middle East are the highest on record.

Globally, beef export volumes declined 7% compared with 2004-05, when imports were abnormally high to meet the unexpected demand in North Asia following the detection of BSE in North America in 2003. Global lamb exports, on the other hand, rose 16% in volume and 12% in value.

There are two main challenges ahead for the Australian industry: low cost competition from South American beef and Chinese sheepmeat; and the re-entry of North American product into Japan and South Korea. Accordingly, our programs implemented this year were specifically targeted at shoring up end-user loyalty to Australian exporters and Australian products. We will continue to deliver on this strategy in the coming years as competition is expected to intensify.

North America

The North American beef market has been abnormal since BSE was detected in Canada and the US in 2003. As a result, Australia exported higher volumes of beef into North Asia and lower volumes into the US. This year, total Australian beef exports to the US were 295,761 tonnes, down 19% on the previous year. Interestingly, over the same period chilled Australian beef exports to the US grew consistently each month, reaching 25,809 tonnes, up 15% on last year.

New beef consumer and trade websites were launched this year. The consumer site includes recipes, cooking and handling tips, Australian beef retailers and nutritional information. The trade site has information on the great diversity of Australian products and the benefits of Australian beef to support the growing chilled beef exports to North America.



New lamb website for US consumers

Hugh Amoyal BBus MBA – general manager, international marketing

Hugh joined MLA in April 2004 to promote and grow demand for Australian red meat overseas. His extensive sales and marketing experience, gained in the international consumer goods and professional products sectors, will provide further drive to our export efforts.



Following the implementation of revised labelling requirements for meat imports, we gained label approvals for two companies and assisted another six exporters with the approvals process. We also implemented four new industry collaborative agreements (ICAs) with Australian exporters and importers of Australian beef, bringing the number of beef ICAs to five.

Research undertaken gave us a better understanding of American consumers' experience with Australian beef and how they view the product. The research conclusions were used to produce a chilled beef strategy for the region.

Lamb exports to North America exceeded 40,000 tonnes and \$300 million for the first time, building on the solid growth in market over the last decade. Our programs, in collaboration with Australian exporters and their customers, continue to focus on increasing the distribution of Australian lamb through American retailers and foodservice companies as well as increasing consumer awareness of the benefits of Australian lamb.

Japan

The continued absence of US beef in Japan saw our beef market share reach 52%. Retail distribution remained steady at 9,000 outlets, and foodservice distribution increased 11% to 61,000 outlets.

The image of 'Aussie Beef' is integral to our strong market share, and this year we worked to capitalise on our good reputation. We used media and more than 70 seminars to extensively promote the consistent quality, safety and other attributes of Aussie Beef to both consumers and trade. Consumer media focused on women's magazines and national newspapers, often featuring Harumi Kurihara, celebrity cook and lifestyle guru and the 'face' of our major national campaign.

A survey of trade showed 91% believe the image of Aussie Beef has improved over recent years, and 95% thought our activities in Japan were effective. A survey of Tokyo housewives indicated that they believe Aussie Beef to be significantly better than US beef for most quality and safety attributes.

Exports of lamb to Japan increased by 58% to 13,100 tonnes, worth approx \$93 million. Distribution has almost doubled compared with last year, with 1,800 retail outlets and 5,000 foodservice outlets selling 'Aussie Lamb' on a regular basis.

Aussie Lamb was included with Aussie Beef in the Harumi Kurihara campaign, which helped raise awareness and expand distribution. We also held trade seminars to show retailers and foodservice companies how to use a range of lamb cuts in a variety of cuisine styles, supporting growth in demand for a range of lamb cuts.

Our survey of Tokyo housewives showed awareness of the Aussie Lamb brand is still relatively low, however the image has improved, particularly towards health attributes. This improvement was underpinned by a range of media, seminars and in-store sampling activities.

South Korea

At 30 June, Australian beef was permanently on the shelves of 582 large-scale retail outlets in South Korea and it was a regular item on the menu in all 302 targeted family restaurant chain outlets. Our success was underpinned by 132 positive Australian beef and lamb news articles to build awareness and loyalty.

We continued to work closely with the major Home Shopping sector, popular in the Korean market, developing packaging and joint promotions with exporters and importers, such as cookbooks and BBQ plates. A weekly 40-minute time slot where consumers call and place orders saw up to 18 tonnes of Australian beef sold at any one time.

At this year's Seoul International Food Expo, CJ Home Shopping Network's famous chef, Ku Bon Gil, joined the MLA stand performing cooking demonstrations and tastings for visitors. We also hosted the MLA Korean Black Box Culinary Challenge with 48 young chefs participating. The competition increases awareness of the positive attributes of Australian beef among future leaders in the foodservice sector through extensive nationwide media coverage.

Our success in raising awareness of the *Hoju Chungjung Woo* brand was recognised when it was awarded Brand of the Year in the food category for the second consecutive year. Votes are cast by readers of the major newspapers and contenders judged by a panel of marketing experts.



The Black Box competition generates interest and attention around the world

South-East Asia

Our focus in South-East Asia this year was on positioning Australian beef as a quality product to counteract lower priced competitors. We promoted Australian beef as a high quality, safe, versatile product and increased customer knowledge of the integrity of our systems and production chain practices. Key drivers of demand, such as nutrition, taste and versatility, were incorporated into our product positioning to create a point of difference for consumers.

Australian chilled beef's strong retail presence strengthened its positioning in the sector, and the introduction of new cuts created competitive consumer products. Additionally, we conducted media and trade missions and trade shows for importers and retailers to increase knowledge of our products. Many of these activities were timed to counteract the potential impact of the re-entry of North American suppliers into this market.

The value of our lamb exports to the region increased by 13%, substantially exceeding our target of 3%. We expanded the number of retail outlets promoting and selling lamb in major markets and increased foodservice volumes by introducing new cuts through the regional MLA Black Box Culinary Challenge, 'chef's tables' and 'lamb festivals'.

Middle East

Australian beef and veal sales in the Middle East increased by 20% this year, with particularly strong sales evident since November 2005. Beef sales in the first half were impacted by the availability of cheap

Brazilian beef imports and low priced chicken. However, Avian influenza and foot and mouth disease outbreaks in Brazil had importers and retailers looking to Australia's reliable supply.

Beef sales in the foodservice sector, particularly in high-end restaurants and hotels, has driven growth. The BSE-induced absence of US beef has exposed chefs and diners to high quality Australian beef products, and they held their appeal since the US re-entry.

Sheepmeat sales also increased significantly, with lamb sales up 35% and mutton sales up 27%. We have now trained 330 butchers to order Australian meat by specification, cut more profitably, understand food safety principles and understand and manage cold chain principles. In addition, retail promotions were conducted in 30 stores in Dubai and Qatar, with a 66% improvement in sales across 24 of the stores over the year.

Three regional Black Box competitions were conducted in Mauritius, Kuwait and Dubai. In Dubai, teams from 10 leading Dubai hotels competed and 350 guests attended the gala dinner and presentation.

Europe

Despite low-priced competition from South America at various times throughout the year, Australian chilled beef was able to hold its premium position in the EU as the number one choice for imported beef.

This year we had significant success in the Russian market with our beef exports increasing from 378mt to 5,529mt, lamb up from 344mt to 1,164mt and mutton jumping to 12,135mt.

This significant growth was supported by a range of activities including training for importers, distributors and restaurant staff. The training covered the attributes of Australian beef and lamb and the AUS-MEAT tools available to help buy with confidence.

We developed cut charts for beef, lamb, mutton and offal in Russian and English and distributed them widely to the Russian trade and exporters. In collaboration with exporters, we successfully participated in two major food fairs – Anuga in Germany and Prodexp in Russia.

Trade development – live exports

INVESTMENT



OBJECTIVE

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

KPIs

- Maintain our access conditions for Australian livestock
- Provide technical support to importers/distributors
- Complete research into standards for curfews, stocking densities

OUTCOMES

- Saudi trade re-opened
- Technical support provided to 15 importers/distributors
- Literature review completed

BENEFITS

- Industry sustainability
- Develop new and existing markets
- Standards backed by science-based solutions

FUTURE

- Review Malaysian, Indonesian veterinary protocols
- Continue support to importers and distributors
- Undertake research to determine best practice

Middle East

Market access

Trade to Saudi Arabia restarted in July and has continued to run smoothly, though the two-tooth maximum age limit still remains despite market demand for older sheep.

We worked to reopen the Egyptian trade and a draft Memorandum of Understanding (MoU) was well-received by the Egyptian government. We expect the trade to be formally reopened later in 2006.

A protocol for trade with Turkey was also completed and is waiting for the Turkish government’s formal acceptance.

Trade support

The quality of sheep arriving in the region has generally improved following changes in our national flock structure and improved preparation for export and shipping. The quality of meat presented for sale from imported livestock has also improved as upgrades of livestock husbandry and abattoir practice take effect.

We progressed our collaboration with Abu Dhabi on food health, and with Dubai municipality on animal welfare, meat production and hygiene.

During the year, our livestock manager accompanied the Western Australian Minister for Agriculture to Qatar, the United Arab Emirates and Turkey to support the development of trade to the region.

Asia Pacific

Market access

We continued to work with Biosecurity Australia, AQIS, the industry protocol committee and importing associations to monitor and improve access conditions for Australian livestock exports to Asia.

A three-month media campaign was run in Indonesia to educate the public on how foot and mouth disease (FMD) is spread and the importance of Indonesia remaining FMD-free. We also assisted in organising a series of seminars to promote the importance of being FMD-free.

Trade support

We supported the feedlot sector through the publication of a South-East Asian feedlot manual. As well, a consultant provided biosecurity advice to Indonesian feedlots, including the development of individual biosecurity operating procedures for feedlots to prevent disease outbreaks. Advice was also provided to nine Indonesian feedlots on environmental issues, especially relating to waste management strategies.

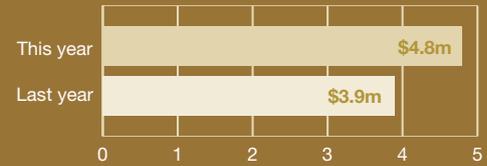
Technical workshops and seminars were conducted in Sarawak, Malaysia, to assist with the integration of Australian cattle into palm oil plantations. To assist with cattle handling and management, a simple veterinary booklet was produced.

The retail butcher training program in the Philippines continued this year.

In April, we hosted a feedlot and cattle tour for 50 international visitors to Australia’s Beef 2006.

Market access

INVESTMENT



OBJECTIVE

Maintain existing market access and, where possible, improve access

KPIs

- Maintain existing market access
- Reduce trade barriers in at least one market
- Ensure industry's WTO Doha Round priorities are acknowledged

OUTCOMES

- Limited resumption of exports to Malaysia through agreed halal production protocol
- Japan safeguard revised for 2006-07
- Trade Minister acknowledged priorities

BENEFITS

- Continued, albeit limited, access to Malaysian market
- Reduced impact if safeguard triggered
- Possible increased value to sheepmeat producers

FUTURE

- Monitor access
- Continue efforts to reduce trade barriers
- Monitor developments, meet with trade officials and lobbying activities

Our World Trade Organization (WTO) Doha Round activities continued, liaising extensively with Australia's trade and agriculture departments, both in Canberra and Geneva, to position our beef and sheepmeat industries for success.

We reviewed and responded to negotiating proposals and represented industry interests at the WTO Ministerial Conference in Hong Kong in December 2005.

Despite extensive lobbying, Australia's compensation for past trade performance into 10 countries acceding to the European Union was very disappointing. However, we did achieve additional access of 150 tonnes of high quality beef and 136 tonnes of sheepmeat. Increased EU access for sheepmeat is a high priority. Representations to Australia's Trade Minister regarding this disappointing outcome were acknowledged and the government has indicated it will continue to push for an ambitious outcome for sheepmeat under the WTO Doha Round, and investigate other bilateral deals to improve sheepmeat access into the EU.

Work continued on monitoring labelling issues in the US and Canada, in particular to minimise confusion about US requirements for primal cuts and packaging.

We also worked with the Australian Government in the US to minimise trade disruption resulting from product inspections and audits following new anti-terrorism laws.

Monitoring and reporting on the US beef re-entry dominated market access activities in Japan. We reported to industry and briefed media on the status and likely timing. Fears that the Japan safeguard may be triggered following the US re-entry were allayed when,

following years of lobbying activity, Japan favourably revised the safeguard for 2006-07.

Other activities in Japan included monitoring country of origin labelling and the revision of maximum residue limits, work on the feasibility of a free trade agreement, and monitoring developments on the use of the term "Wagyu".

US re-entry was also an issue in South Korea where we monitored, advised and liaised with all key stakeholders to ensure no additional trade barriers resulted from any new import protocols. We assisted the Australian Embassy with the registration of two Australian companies' certification for labelling organic beef.

Along with the Australian Government and industry, we successfully increased the number of Australian establishments approved to export to China – now at 45 plants compared with three in 2004. We worked with industry and government on the Australia/China free trade agreement, and we played an important role as a conduit for Australian authorities to the Chinese trade.

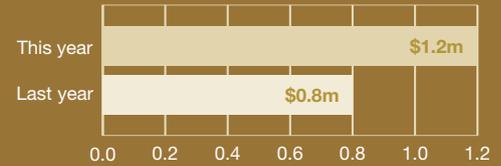
In Malaysia, we worked closely with importers and the Australian Embassy to provide insights into Malaysia's concerns with Australia's halal procedures, subsequently resolving the issue.

Discussions continued with the Australian Embassy in Riyadh to remove the requirement to have export documentation notarised by the Saudi Embassy in Canberra. In Jordan and Dubai, we collaborated on a range of technical access issues to reduce access impediments.

In April, a Memorandum of Understanding was signed with South Africa promising enhanced market access conditions.

Red meat innovation

INVESTMENT



OBJECTIVE

Grow demand for red meat through innovative products and technologies

KPIs

- Two companies delivering new products using Meat Strip Alignment Technology (MSAT)
- Start an initiative for developing a new technology to produce convenient products

OUTCOMES

- Completed successful trials of lamb products using MSAT
- Industry workshops identified over 1,000 new product ideas, consumer studies have highlighted some short-term targets

BENEFITS

- Competitive lamb-based products using secondary cuts could increase sales by up to \$300m annually
- Similar workshops run in 2001 to 2003 increased butchers' sales by \$45m to the end of 2005 through innovative product offerings

FUTURE

- Promote value added red meat products to manufacturers
- Extending creative butcher training and promotion

Shelf-stable products

This year we commissioned an independent assessment of the impact of shelf-stable products in the domestic market. The assessment identified a potential market for value added shelf-stable products worth \$11 million annually, and expected to grow to \$14 million annually over the next year.

Further market growth in shelf-stable products will need to be led by adoption of this technology, particularly by a well-known brand. It will also require consumer-driven product development.

Meat strip alignment technology

Our meat strip alignment technology has enjoyed successful trials on lamb this year; however beef product development still faces some technical hurdles and requires further work.

Consumer studies indicate that a net 4% increase in red meat consumption, worth approximately \$300 million annually in the red meat value alone, could come from value added red meat product offerings.

Creative butcher workshops

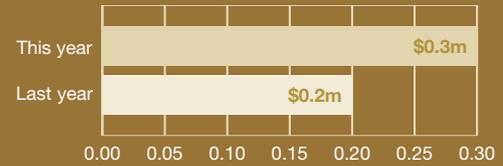
A series of 'foresighting' workshops with industry representatives identified more than 1,000 new product ideas, primarily focused on convenient foods. Subsequent consumer studies have highlighted some short-term targets from this list.

The impact of our creative butchers workshops run from 2001 to 2003 has been studied and results show a \$45 million increase in sales in the butcher sector to the end of 2005. Eighty percent of butchers surveyed now offer value added products and report increased sales volume and profitability.



Co-products

INVESTMENT



OBJECTIVE

Ensure the industry is well positioned to capture value from co-product opportunities

KPIs

- Rendered co-products (raw materials) are directed into non-feed applications
- Increased revenue from bioactives and co-products
- Processor industry aware of pet food opportunities

OUTCOMES

- Two tallow-based biodiesel projects underway
- Identified potential/gaps in production for increased revenue from high value bioactives
- Studies show little incentive to enter the pet food market

BENEFITS

- This strategy has significant potential economic, social and environmental benefits
- Significant potential benefit through product diversification

FUTURE

- Develop commercialisation strategy for new biodiesel technology
- Increase industry's capability to diversify into high value products
- Investigate pet nutraceutical trends that allow value adding

Rendered co-products

One of the major highlights for this program was in our work in producing biodiesel from tallow. During the year, two projects aimed at developing a tallow-based biodiesel industry commenced in Victoria and South Australia. These projects are complementary and, if successful, will enable tallow-based biodiesel that can be used throughout Australia all year round.

While working with a processor to pioneer the biodiesel process on behalf of industry, we are developing an industry adoption process in parallel with our current R&D activities.

High value bioactives

We have completed two studies to identify the potential and the gaps in production of high value bioactives from red meat by-product streams.

The gap analysis has shown that although there is a potential value chain from abattoir to end market, there is a lack of facilities approved for manufacture of cosmetic and pharmaceutical ingredients. A value chain study, quantifying the distribution of profits from red meat bioactives in high value markets, showed that a significant share of profits is possible for ingredient manufacturers. However, producers and processors need to take a position at least one step further down the value chain in order to take advantage of a share in these profitable bioactive products.

We will now provide these outcomes to industry,

allowing new business models to be developed around bioactive markets. We will also work to increase the capability of industry to diversify into non-commodity, high value products.

Pet food

Following earlier studies of raw material quality issues from a pet food manufacturer's perspective, studies of the processor supply chain were conducted. These show that there is currently little financial incentive to enter the market and to guarantee quality and supply of commodity ingredients, relative to current disposal in the form of rendered products.

A project is now underway to identify pet nutraceutical trends which will allow the processor to add value, and therefore margin, to pet food ingredients and thereby avoid commodity pricing.

PRODUCT INITIATIVES

MEAT SAFETY/ISSUES MANAGEMENT • MEAT STANDARDS AUSTRALIA



Ian Jenson, manager, food safety

Ian Jenson manages MLA's Food Safety program. He has degrees in microbiology/biotechnology and chemical engineering.

Before joining MLA Ian worked in research and manufacturing, particularly in quality systems, product and process improvement and food safety. He has a strong background in taking raw agricultural products, such as milk, wheat, barley, corn, grapes or meat, and making products such as cheese, yoghurt, beer, wine, ethanol or salami.

For Ian, contributing to the continued success of a significant national industry is a very exciting opportunity. "I enjoy working with people from government, universities, all industry sectors and customers to make sure that this happens.

"Everyone wants to be confident that eating meat is an enjoyable and safe experience. We need to develop and maintain the trust of consumers, customers and other countries in the safety and integrity of our products. Without that, our products just don't get onto the shelf in premium markets," says Ian.

A highlight for Ian this year was the nomination of our Refrigeration Index for the Australian Government prize for rural innovation. The Refrigeration Index was the result of 10 years' research and development involving scientists, regulators and meat processors. It provides greater quality assurance, gives processors more flexibility with their processes and provides opportunities for increasing efficiency.

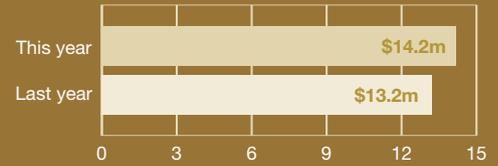
A challenge for the year ahead is to continue to improve and guarantee the safety of products in the most efficient way.

"In the production sector, there's always something new! We will be working with processors, retailers and smallgoods manufacturers on new ideas that give these sectors new tools to guarantee safety and quality efficiently and effectively. I get excited when I see people developing their skills and knowledge and using that to benefit themselves and the industry," says Ian.

When he's not tackling food safety issues for the industry, Ian likes to read and listen to, and play, music. However, with three teenage children involved in AFL, soccer, dancing and drama, there's not a lot of spare time!

Meat safety/issues management

INVESTMENT



OBJECTIVE

Ensure integrity and safety of beef and sheepmeat

KPIs

- Health officials acknowledge our food safety status
- 50% of registered LPA producers are fully accredited
- NLIS database processes 95% of files and enquiries in less than 30 minutes

OUTCOMES

- Our food safety status was acknowledged
- 45% of registered LPA producers fully accredited due to higher than expected numbers becoming provisionally registered
- 96% of files and inquiries processed in less than 15 minutes

BENEFITS

- Consumer confidence in our products' safety
- 'Clean, safe' reputation underpinned

FUTURE

- Continue to ensure high food safety levels
- Continued accreditation
- Ongoing enhancement of, and support for, NLIS database

Food safety

Communication is a key component in ensuring that Australian meat's high level of food safety is acknowledged. Throughout the year, industry's food safety reputation was strengthened by the publication of a number of scientific papers and presentations given to food industry and food safety conferences in Australia, the Middle East, Europe and the US. The resulting understanding and acknowledgement of our food safety record by scientists is important for forming public opinion and shaping government policy.

Public health authorities have acknowledged the food safety record of red meat and meat products. Tests indicate antimicrobial resistance is under control, low numbers of microorganisms are found in meat and new standards for food safety are already met by the industry.

We continued to develop field surveillance and laboratory capability for BSE – additional BSE testing supports our favourable international BSE status.

Through our SAFEMEAT partnership, an industry biotechnology position has been agreed and we kept stakeholders informed about biotechnology developments that may impact on industry.

MLA is a core member of the Australian Food Safety Centre of Excellence, which is funded through the National Food Industry Strategy. This association gives us close collaboration with world-class researchers and insights into work funded through other agencies. Additionally, when is work done that is generic to a

number of commodities, we have the opportunity to invest for meat-specific projects. The Centre also offers invaluable international connections.

Supporting industry and regulators

During the year we worked with industry through experiments and trials to encourage the take up of alternative procedures to meeting outcomes-based regulations. We had aimed to deliver industry savings in excess of \$1 million through this work, however take up has been slower than anticipated and full implementation of new procedures may take a few years.

The Australia New Zealand Food Standards Code has been revised to require food safety programs for fermented and manufactured meats. We contributed to the development of the new standard, through the results of our research and the guidelines we had previously developed for the smallgoods sector. The current safety performance of this sector was clearly acknowledged in the development of the new standards.

LPA

Forty five percent of all farms registered in the Livestock Production Assurance (LPA) program (170,486) became fully accredited during the year. We fell short of our target of 50% following a higher than expected number of producers becoming provisionally registered.

Allan Bloxsom – general manager, industry systems

Allan has over 35 years' industry experience in the red meat industry having worked in, or with, various sectors of the supply chain. With this experience, Allan lends strong leadership to industry systems that provide the foundation for differentiating Australia's 'clean and natural' red meat products both at home and in the international arena.



In November, we launched the LPA QA program and drafted a manual for the program which was approved by industry. We also drafted a module for the Japanese Agricultural Standard.

In November 2006, we will launch a new LPA/NVD communications strategy to educate the whole supply chain on the LPA program and the importance of NVDs (National Vendor Declarations).

NLIS

One of our biggest challenges this year was to deliver a robust, secure and user-friendly NLIS (National Livestock Identification System) database that enabled stakeholders to meet their legislative requirements.

The database accommodated exponential growth in use following the introduction of the state legislation underpinning NLIS. Farms registered increased 300% to 143,000; NLIS tags also increased 300% to 30 million; daily usage increased 400% to 2,700 daily interactions; and on average we now record 96,000 cattle movements each day.

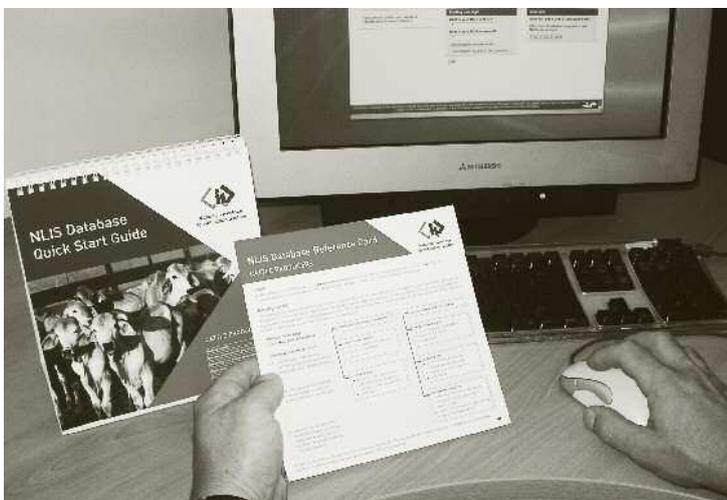
In the face of this enormous increased activity we met and exceeded our service targets, processing all files



and enquiries in under 15 minutes – 73% are processed in under one minute.

An important factor in this anticipated surge was that users should find the database interface intuitive and easy to use. To this end, we redeveloped the interface and put it through rigorous user testing. We released the new interface on 1 July 2006 with an extensive range of user support tools – tailored *Quick Start Guides*, tutorials and help resources.

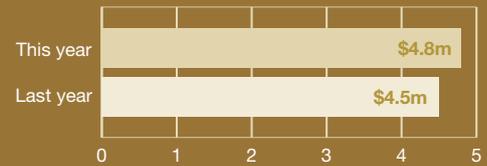
Where 42% of users rated the general ease of use of the old interface as 'poor', 97% of users in the prototype testing agreed that the new interface was easy to use and to navigate.



Eleven *Quick Start Guides* were developed, tailored to the needs of each group of NLIS database users

Meat Standards Australia

INVESTMENT



OBJECTIVE

World's leading eating quality grading and labelling system

KPIs

- Deliver complete grading model by 31/12/05
- Launch electronic correlation program
- Launch SMEQ as part of MSA

OUTCOMES

- Complete model release date extended to 30/12/06
- Correlation program in all licensed sites
- Achieved Registered Training Organisation accreditation

BENEFITS

- Model covers all categories of livestock doubling the numbers available
- 40% savings in correlation costs
- Accreditation allows for greater take up

FUTURE

- Establish supply chain benchmark for measurement
- Increase grading numbers
- Roll out sheepmeat program

In 2005-06 a total of 644,280 head of cattle were graded through the Meat Standards Australia program, a 2.8% increase on last year. South Australia had the highest growth reporting an increased 89% as the program gained momentum in that state. Other states remained comparatively static. With three additional plants recently becoming licensed, grading numbers are expected to increase during the year ahead.

The first version of the on-site correlation and practice system (OsCap) was tested and implemented into licensed processing plants from April 2006. Forecasts indicate using the system could reduce the cost of grader monitoring by up to 40%.

Sheepmeat Eating quality

During the year we progressed the Sheepmeat Eating Quality program. Standards for sheepmeat eating quality were drafted and subsequently approved by the Standards Committee in August 2006.

To support industry take-up of the program, we published a technical guide for the Australian sheepmeat supply chain as well as an MSA sheepmeat *Tips & Tools* information kit. During May, workshops attended by key industry personnel were held in each state.

Training

During the year, 510 training modules were delivered to processors, and 3,895 modules were delivered to 2,347 end users including retailers, wholesalers and foodservice personnel. In addition, 192 agents and saleyard operators undertook training in MSA saleyards pathway requirements, and 59 agents, trainee agents and livestock buyers undertook livestock agent's training.

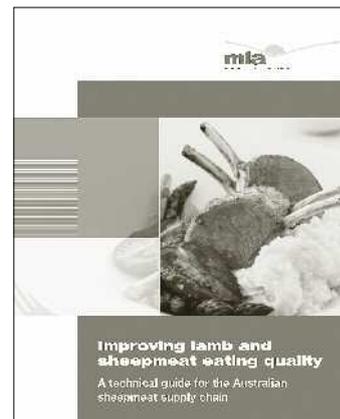
In June, two processor training modules from our Certificate III in Meat Processing achieved 'Registered Training Organisation' status.

R&D

Sensory trials were conducted with Republic of Ireland, Northern Ireland, United States and Japan to benchmark Australian consumers with international consumers and give a greater understanding of how to meet consumer expectations. The result of the research will be available in December 2006.

Evaluating our performance

A study undertaken by the Beef Cooperative Research Centre during the year found MSA to have delivered an additional \$159 million in value to the beef industry since commencement in 1999. The value added per head equates to an extra \$0.20 per kilogram of beef graded through the program.



COMMUNITY CONCERNS

ENVIRONMENT – RESOURCE MANAGEMENT • ANIMAL WELFARE – ON-FARM • ANIMAL WELFARE – LIVE EXPORT



Danielle Marotti,
project manager,
animal welfare

Danielle has always had an interest in sheep and beef production. As a child she spent holidays on family farms and these early experiences established a passion for rural Australia and the industry. So it was a natural progression for her to study agricultural science at Melbourne University. After completing her degree Danielle worked with the Victorian Department of Primary Industry and continued her studies, completing a PhD in animal grazing behaviour and production.

In 2004, Danielle joined MLA taking up the opportunity to interact with different areas of the industry from farmers to international scientists. "It's great to have the chance to work with industry to progress animal welfare research and assist industry through management of their animal welfare research investments.

"Animal welfare research in Australian production systems is essential to inform consumers, the public and welfare groups of the welfare standards and outcomes achieved within the red meat industry. This research will also help protect the industry from the imposition of overseas standards and requirements that may be

impractical for our unique production systems. This is important to our ongoing market access, especially to high value international markets", says Danielle.

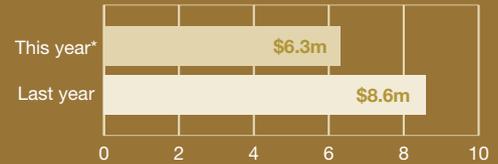
The establishment of the animal welfare R&D program and completing the first stage of a key land transport durations project were highlights for 2005-06. The results support the current Australian transport codes of practice and existing industry knowledge showing healthy cattle transported using best practice can travel for up to 48 hours without major compromise to their welfare. Another highlight was the release of the *Fit to load* guide, developed in conjunction with RSPCA and supported by industry.

"An exciting upcoming project is the Objective Measures program. This work will involve national and international research teams working together to identify appropriate measures for assessing animal welfare."

Danielle's parents now own a beef breeding property in South Gippsland, Victoria, and whenever possible she likes to spend time with family, travel and cook.

Environment – resource management

INVESTMENT



OBJECTIVE

Undertake R&D into priority environmental issues and support adoption of outcomes

KPIs

- Complete longitudinal study of how mixed farming practices influence biodiversity
- Initiate joint AGO/MLA research project to address methane emissions from feedlots
- Meat Processing Industry Best Practice Guidelines endorsed

OUTCOMES

- A study has commenced, due to be completed in 2008
- Joint study commenced in June
- EPA endorsement pending federal government endorsement

BENEFITS

- Potential to improve environmental sustainability
- Improved nutritional energy efficiency and reduce environmental impact
- Improved industry sustainability through processor, regulator commitment to 'best practice' guidelines

FUTURE

- Communicate outcomes of Wambiana grazing trial to northern producers
- Identify key management practices supported by regulators and community
- Promote guidelines to meat processors

Biodiversity

The Biodiversity project, commenced this year under the cooperative Grain & Graze program, is the first of its kind. Over the next two years it will investigate how on-farm biodiversity is influenced by land management and site conditions, such as climate, soil type and topography. Forty-three producer sites will be managed to determine the beneficial interaction between biodiversity and mixed farming systems. The regional focus gives local communities an understanding of, and appreciation for, their local ecosystems.

The EverGraze project is now established with three large-scale system experiments and five satellite sites in place. MLA and the Cooperative Research Centre for Plant-based Management of Dryland Salinity joined with research providers and catchment management authorities (CMAs) in Western Australia, Victoria and New South Wales. Together we are establishing a systems-based program that aims to increase profits by 50% (from perennial-based pasture systems), and at the same time reduce groundwater recharge by 50%. During the year we sourced 'elite' sheep, equipped sites, filled staff positions and engaged 22 producers to run and direct the project.

The project will provide producers with the tools to continue to improve the management of perennial pasture in high rainfall zones, delivering improved pasture management, reduced production variability and more efficient water use.

Greenhouse gas emissions

A collaborative project between MLA, the Australian Greenhouse Office and the University of Melbourne commenced in June. The project will measure methane, ammonia and nitrous oxide emissions from feedlots, using open-path laser technology. Two feedlots are participating and we have commenced the first round of data collection at one, and measurements will commence at the second in 2006-07.

Improving our understanding of methane, ammonia and nitrous oxide emissions from feedlots will allow operators to improve their nutritional energy use efficiency. It will also provide valuable data to benchmark and promote industry performance.

Best practice guidelines

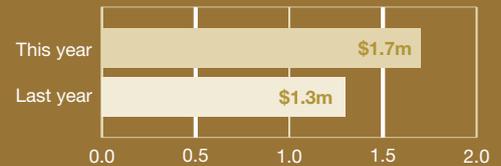
Draft guidelines for meat processing best practice were endorsed by the Australian Meat Industry Council and Australian Meat Processors Corporation. The guidelines will be presented to state environmental agencies, following federal government endorsement.

The guidelines, produced in close consultation with the processing industry, demonstrate a voluntary commitment by our industry to high standards of environmental practice. The guidelines will also provide a useful resource for training environmental staff and for helping state environmental authorities and other regulators understand the best practice technologies and practices used by the industry.

* Expenditure previously allocated to Environment only is now allocated across Environment, Improving Productivity and Adoption and Capacity.

Animal welfare – on-farm

INVESTMENT



OBJECTIVE

Improve livestock wellbeing and address community concerns

KPIs

- Complete preliminary transport research
- Develop framework for objective measurement of welfare
- Validate and submit heat load risk assessment software

OUTCOMES

- Research results set best practice benchmark
- Developed framework with local and international collaboration
- Completed validation work and submission

BENEFITS

- Findings support transport industry’s code of practice
- Increased efficiencies through collaborative approach
- Improved ability to predict heat risk

FUTURE

- Develop materials to communicate best practice
- Progress research into welfare outcomes
- Heat load management plan to be trialled next summer

Transport

During the year, we worked with CSIRO to assess the stress levels in livestock both before and during transportation. An experiment evaluating stress in the initial stages of cattle transport indicated there is no difference in stress response between animals handled quietly during loading and those receiving four applications of an electric prod.

Following this study, we completed a commercial study looking at the duration of time in transport and its impact on cattle welfare. Results showed no detrimental impact on livestock transported over a 48-hour period. This is in line with the National Model Code of Practice for Land Transport. These findings will be presented at an international conference in the UK and results will feed into upcoming revisions of codes of practice.

Measuring welfare

To understand and improve animal welfare we must be able to measure welfare outcomes for livestock. To this end, we convened a workshop bringing together Australian and international welfare researchers, along with representatives from the RSPCA, the Department of Agriculture Fisheries and Forestry (DAFF), Australian Wool Innovation, the Australian Veterinary Association, Australian Pork Limited, Dairy Australia, Australian Egg Corporation and Meat & Wool New Zealand (M&WNZ). In collaboration with these parties we developed a research framework to measure welfare outcomes.

Subsequently, a call for project applications was made and applications were reviewed by a panel including representatives from Australian Wool Innovation, M&WNZ, Australian Lot Feeders’ Association (ALFA),

DAFF, Animal Health Australia, peak councils, RSPCA and the European Union Welfare Quality program.

By using a collaborative approach to identify objective welfare measures, we hope to increase both research and economic efficiencies. This integrated approach will also allow us to consider both local and international industry and community concerns.

Heat stress in feedlots

The development of a software package to assess the heat stress load on animals in feedlots progressed through the year. We completed additional experimental work to validate the risk assessment tool and we are currently analysing the results.

At the same time, we worked with ALFA and have finalised the submission necessary to incorporate the package into the National Feedlot Accreditation Scheme. We plan to trial a risk assessment and implement a heat load management plan in the coming summer period – for obvious reasons this can not be done effectively during the cooler months.

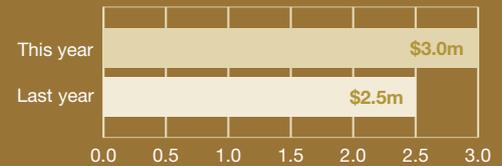
When the software package is incorporated into the National Feedlot Accreditation Scheme it will improve a feedlot operator’s ability to predict heat risks, and take earlier corrective action.

Communication and education

During the year we contracted a review of existing animal welfare educational materials to understand what materials are available, the content of these materials and their level of uptake. The review has been completed and recommendations will be used to determine format, content and target audience of any new animal welfare educational materials.

Animal welfare – live export

INVESTMENT



OBJECTIVE

Improve livestock welfare during the whole export process

KPIs

- Progress on stunning and processing issues in Middle East
- Islamic approved stunning trialled in a major Indonesian abattoir

OUTCOMES

- A range of training and infrastructure projects undertaken
- Stunning now used in four abattoirs

BENEFITS

- Improved animal welfare outcomes
- Improved animal welfare and product quality

FUTURE

- Contribute to gulf-wide task force to progress animal welfare in the region
- Accelerate livestock handling, processing programs in all markets

Much of our work in live exports involves working with customers in other countries, understanding local issues and cultural attitudes and influencing behaviour to address our community’s animal welfare concerns. Working outside our cultural and legislative area of influence makes this a slow process, however without this important work we would not make significant welfare advances important to both our industry and the community.

Middle East

Activities and progress in the region increased significantly this year. We delivered handling training and general feedlot management advice to feedlots in Bahrain, Qatar, Kuwait, Jordan and Oman. Training in ship unloading and trucking procedures was well-received as it also vastly reduced unloading times.

A number of infrastructure projects to improve welfare were completed. Renovations were made to feedlots in Bahrain and Qatar, and modifications were made in Kuwait, Oman and Jordan, and the port unloading ramp at Qatar was modified.

We completed and presented to government an audit detailing all facilities holding and processing Australian livestock in the region, and identified priorities for future work.

An audit of Egyptian feedlots and abattoir facilities was undertaken to identify animal welfare issues. Subsequently, a national training program for butchers, and activities to raise welfare standards across all abattoirs will be developed.

We are active in a number of initiatives across the region, including a five-member, Gulf-wide task force set

up by the Australian Government to progress regional animal welfare issues. In Jordan, we are working collaboratively to develop national standards for animal welfare based on the OIE (World Organisation for Animal Health) code.

Asia Pacific

This year we focused on coordinating our activities with other animal welfare groups and agencies and we are now working with federal and state government departments. We completed a stocktake of animal handling and processing practices in our live export markets to identify, prioritise and address shortcomings.

Our stocktake in Indonesia identified 69 abattoirs processing Australian cattle, and we visited and completed reports and recommendations on 38 through the year.

Eleven restraining boxes were manufactured and six installed. We produced a Bahasa language DVD, showing how to use a restraining box and its benefits. Templates for appraisals and installations were also designed to improve record keeping.

During renovations and appraisal visits we provided training to butchers and livestock handlers. We advised six feedlots on feed additives and silage preparation, and completed a project on managing sick cattle in feedlots.

A restraining box was installed at a Malaysian Government abattoir at Senawang. Five new sites have been identified for the installation of restraining boxes.

In the Philippines we appointed a coordinator to administer a project, run in conjunction with Philippines authorities, ensuring stunning is practised in abattoirs.

WHOLE-OF-CHAIN EFFICIENCY

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



Rebecca Underwood and Blair Brice, program managers for supply chain

Blair Brice and Rebecca Underwood manage the Supply Chain Management program, with Blair representing the on-farm sector and Rebecca the processors.

Rebecca grew up on her family's cattle station, 600km south west of Katherine in the Northern Territory. In 1999, after completing a Bachelor of Agricultural Science, majoring in Animal Science, Rebecca joined MLA's Meat Standards Australia. Starting out as a grading officer, she soon took on responsibility for training MSA participants across all industry sectors. In July 2005, Rebecca relocated to Sydney to take up the role of program manager for off-farm supply chain management.

Blair's path to MLA was less direct. Growing up in Western Australia, where his family ran businesses including hotels, aquaculture and publishing, childhood holidays were typically spent visiting relations on the land. Armed with a degree in agribusiness, Blair became a wool broker, working across the wool supply chain. He then took time out to study for his MBA and worked for the Australian Wool Exchange before joining MLA in November 2005.

For Blair, his role at MLA offered the opportunity to diversify into the red meat industry and broaden his

scope while remaining within agribusiness. "Coming to MLA was a bit intimidating at first; there are a lot of eminently qualified scientists here who are leaders in their field. But my agribusiness background complements the science and industry knowledge already here," says Blair.

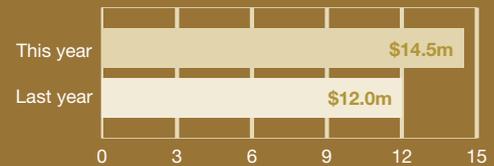
For Rebecca, variety in her role is key. "The job allows me to work with all sectors of industry which is definitely a bonus," she says. Consumers want to know more about the end product and much of her work involves developing standards that allow information to pass between trading partners efficiently.

Both Blair and Rebecca agree that adding value to industry's significant investment in NLIS will be an exciting and rewarding challenge ahead. As NLIS matures there is more scope to add value through feedback on factors like genetics, nutrition and market specifications.

And what about relaxation? For Blair, it's open water swimming, and he recently competed in the 20km Cottesloe to Rottnest Island swim. For Rebecca, it's enjoying a glass of wine with friends, and whenever possible, escaping the rush of the city.

Improving productivity

INVESTMENT



OBJECTIVE

To improve industry's productivity, profitability and sustainability

KPIs

- Make PCR diagnostic test for bovine reproductive diseases available
- Establish EverGraze projects
- Document and disseminate robotics strategy

OUTCOMES

- Two tests delivered to state agencies
- Established 3 large-scale experiments and 5 associated sites
- Strategy developed and approved by industry

BENEFITS

- Better diagnosis and treatment of infected herds
- Profitable, environmentally sustainable production systems
- Safer workplace, broader pool of potential employees, productivity gains

FUTURE

- Include native pasture production systems, engage 5 more CMAs
- Develop prototype for beef boning technology

Northern beef

Calf wastage

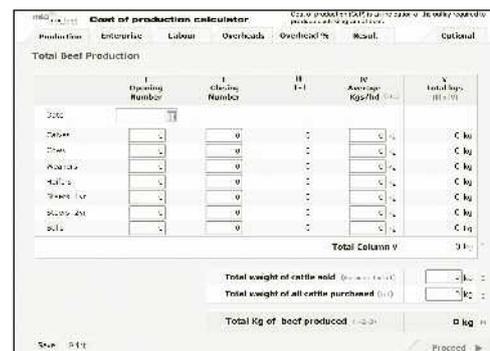
Work continued during the year to quantify, through a review of published literature, trial reports and industry knowledge, the magnitude of reproductive wastage on northern properties. One conclusion was that 20-25% of heifers and 10% of cows confirmed pregnant fail to wean a calf. A team is now working on a project to benchmark regional performance and look at the impact of different management practices. Although this work will continue for 4-5 years, the possibility of reducing calf loss from confirmed pregnancy test to weaning has significant benefits for producers.

PCR diagnostic tests

We completed two new PCR (polymerase chain reaction) tests for better diagnosis and treatment of campylobacteriosis and trichomoniasis infected herds. Using the tests, producers will be in a better position to identify if vibrio is present in their breeding herd, making vaccination more cost effective. The tests are currently in the initial stages of transfer to state agencies for delivery to industry.

Commercialisation of NIRS

Symbio Alliance Pty Ltd were licensed to commercialise the faecal NIRS (near infrared reflectance spectroscopy) technology jointly owned by MLA and CSIRO. Using the technology, faecal samples can be tested for dietary crude protein, dry matter digestibility and grass/non-grass proportion of the diet. Many northern producers use the technology to help cost-effectively manage their supplementation programs by helping to decide when, what and how much supplement to feed cattle to meet production targets or goals.



Interactive cost of production calculators for beef (above) and sheep are available at www.mla.com.au

For real benefit to be gained, the technology must be combined with a good knowledge of cattle nutrition and, more specifically, the response of cattle to supplements, and we provide this information through our *Nutrition EDGE* course.

A survey of northern beef producers found that 19% of producers had heard of the NIRS technology, and 25% of these had used it. On a scale of 1 (no value) to 5 (highly valuable), 87% of these producers ranked the technology at 3 or better, and 38% ranked it as highly valuable.

Southern beef

Three new tools were delivered for southern beef producers – a cost of production calculator for beef, the MLA Rainfall to Pasture Growth Outlook Tool (see page 42 for more details), and the MLA Feed Demand Calculator. Initial response to these tools has been very positive. All three, available from our website, can be used equally effectively by sheep producers in their enterprise.

Dr Reuben Rose DVSc PhD FRCVS MACVSc – general manager, livestock production innovation

Having grown up on the land, then practising as a vet, Reuben pursued his academic career in the UK, France and the US and was Dean of Veterinary Science at the University of Sydney. This, along with his distinguished contribution to research, provides a solid foundation for his management of our significant on-farm R&D portfolio.



Genetic progress for profit in the seedstock sector continues to accelerate, and is now 50% faster for the period 2001–2006 than for the preceding 5-year period. This is delivering real benefits in improved gross margins to beef producers.

A major R&D program has been developed in the Beef Cooperative Research Centre III. The program will be initiated in 2006-07 and will focus on components of maternal herd productivity. The outcomes will help breeders and producers better manage the trade-offs among fertility, growth rate, carcase merit and feed efficiency at both the animal and the herd level.

Dairy beef

A final draft of the Dairy Beef Manual was completed and distributed to industry stakeholders for final review. The manual is a complete entry-level guide for potential and existing dairy beef supply chain participants. It is expected to be completed by the end of 2006.

Sheep

Genetics

A highlight this year was the launch of Sheep Genetics Australia (SGA) in October. This collaboration with Australian Wool Innovation will allow both sheepmeat and wool producers to make significant advances in developing and adopting objective measurement and genetic evaluation. Genetic improvement is one of the fundamental tools that will enable Australian sheep producers to increase the productivity of their enterprise.

SGA brings together a number of genetics databases, including MLA Lambplan, into one national database of 2.7 million sheep. It allows breeders to compare the genetic merit of rams and ewes within designated groups, breeds or, where appropriate, between breeds, and provides breeders with information on 56 traits. The terminal sire analysis of 1.3 million animals is run across 15 breeds with rates of genetic gain equal to 4% per year.

Over 70% of the Australian sheep flock is currently influenced by SGA, and it is forecast that over 220,000 sheep will be added to the database in 2006-07.

In late 2006, the first sheep gene markers will be released to industry and it is expected that their use in conjunction with Australian estimated breeding values

(ASBVs) will enable increases in the rate of gain currently being achieved.

OJD

Most of the research projects in the national ovine Johne's disease (OJD) program are now complete, generating invaluable information to assist the sheep industry in the control of this disease. OJD costs producers 6.5% of annual production in unvaccinated, infected flocks, and average losses from OJD infection are estimated at \$65.92 per hectare.

Through this program, we have evaluated and registered an OJD vaccine, and 2.5 million doses were sold in 2005. We developed improved diagnostic tests and scientifically-based pasture and animal management strategies to limit the impact of infection in affected flocks, and now have a better understanding of the role of other animal species in the spread of the disease.

During 2005, we held an 'OJD Harvest Year' which focused on packaging and extending research results to both researchers and producers. This is covered in more detail under Adoption and Capacity on page 36.



Left to right: Richard Bull, chairman SGA, Mark Spurr, managing director MLA, Ian McLachlan, chairman AWI, The Hon Peter McGauran, MP, Alex Ball, manager SGA at the launch of Sheep Genetics Australia (SGA) in October 2005

Goats

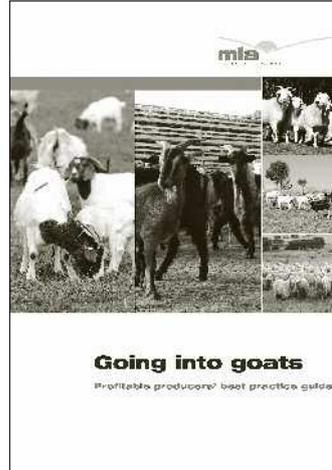
Our planning identified the supply of goats for processing or live export was the single major factor limiting growth of the Australian goat industry.

To address this shortfall, we developed a set of information to act as a 'one stop shop' for existing goat producers to help lift production, and for potential goat producers who may be considering entering the industry. The resultant manual, *Going into Goats*, was launched nationally in May 2006 at Cassilis, NSW, to 300 existing and potential goat producers. State launches were held subsequently attracting up to 150 producers at each and receiving extensive media interest and coverage.

A state-based communication and extension network has been established to support the delivery of best practice information contained in the guide.

Pastures

The EverGraze project was established last year, in collaboration with the Dryland Salinity Cooperative Research Centre, to develop and deliver profitable, environmentally sustainable production systems.



Going into goats is a practical producer's guide to establishing or running a goat enterprise

During the year, three large-scale system experiments and five associated satellite sites were established.

This year, Australian Wool Innovation committed funding for four years to the EverGraze project, substantially increasing the research and delivery effort. In 2006-07, the project will expand to include an additional three native pasture production system sites, and engage another five catchment management authorities.



David Palmer, managing director, addresses producers at the *Going into Goats* launch at Ant Mardin's property 'Dalkeith', Cassilis, NSW

Christine Raward BSc MHA MAICD – general manager, client and innovation services

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



Processing technology

Automation

Developing and implementing automated and semi-automated technology into the meat processing industry has a number of benefits. Aside from increased productivity, effort in manual tasks can be reduced broadening the pool of potential employees to include more women, and reducing exposure to potentially dangerous tasks to make the industry safer and more appealing to potential employees.

Progress was made this year on a number of technologies. The first 'small stock' boning technology was deployed in an Australian processing plant, delivering better yields and productivity improvements. Our next step will be to integrate the first two modules developed – aitch boning and primal cutting – into a fully automated boning system in a sheep processing plant.

A strategy for cobotics – manual-assist technology – was developed and approved during the year, and we identified the priority areas for maximum benefit from this approach. A project to develop a beef boning technology was approved and a prototype system will be ready for trialling in 2007. Preliminary trials show improved yield of 1.1%, or an increased return on meat yield of about \$17.00 per head.

Advanced vision and sensing systems

Vision and sensing is paramount for the success of reliable automated and semi-automated alternatives for manual meat processing tasks. Currently there are three MLA-driven automated solutions in use that are delivering labour savings, food safety improvements and yield increases. Some of this would not have been possible without our fundamental work in these areas.

This year, we carried out initial analysis for the development of vision and sensing for eight more processing tasks. Four of these are ready for deployment through plant initiated projects:

- two tasks will be automated in processing plants in 2006-07, capitalising on vision and sensing work done during this year; and two other plant initiated projects are already underway
- a further six other vision and sensing tasks are still to be developed in 2006-07

Alternative stunning

Our program of work in this area is aimed at improving the effectiveness of pre-slaughter stunning while reducing the cost to the processor. At the same time, it is critical that we address animal welfare issues and ensure the industry remains in step with community attitudes. We are working to position the industry as a world-leading innovator in this important strategic area.

This year, we collaborated with the Australian Meat Industry Council to establish Animal Welfare Standards for processing. We also worked with MINTRAC (National Meat Industry Training Council) to provide input into an animal welfare workshop for meat processors and the development of training materials.

The science and technologies developed will build on existing electrical stunning technology and a new approach to electrical stunning called Single pulse ultra-high current (SPUC).

Progress this year was slow, mainly due to the constantly changing environment of a culturally diverse market and the need to educate regulators, however some advances were made. We successfully trialled high frequency electrical (HFE) stunning on 60-day grainfed cattle achieving acceptable efficiencies. We also trialled HFE on sheep in a New Zealand plant at normal operational speeds, and have now installed this trial equipment in two Australian plants.

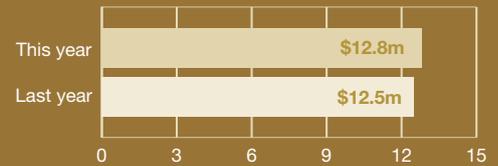
In addition, we commenced trials of SPUC stunning, and successfully retro-fitted and trialled head restraints in one processing plant.



Small stock boning technology is delivering better yields and productivity

Adoption and capacity

INVESTMENT



OBJECTIVE

Communicate and deliver tools and information from R&D outcomes, encouraging adoption by producers, feedlotters and processors

KPIs

- 5% increase in producer trial/participation in MLA's tools & information
- 5% increase in producer adoption of at least one key management practice
- 5% increase in processor participation in and adoption of innovation

OUTCOMES

- 11% of producers participated in workshop, forums, PIRDS, etc
- 45%-55% of producer participants changed management practices
- 10% increase in processor participation and adoption

BENEFITS

- Increased producer knowledge and management skills
- Increased on-farm profitability and sustainability
- 90% of processing plants have structured process for continuous OHS improvement

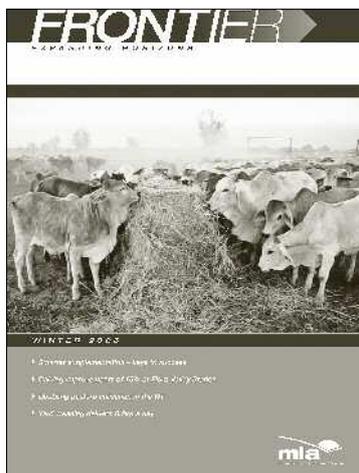
FUTURE

- Deliver *Sheep & Wool Best Management Practices* manual with AWI
- Continue to promote benefits of key grazing practices
- Develop comprehensive processor innovation toolkit

An important aspect of our work is communicating and encouraging adoption of our R&D outcomes to develop industry's capacity to remain profitable and sustainable. Our adoption and capacity activities focus on both on- and off-farm sectors to deliver whole-of-chain efficiency.

On-farm adoption and capacity

To raise awareness of on-farm R&D outcomes, this year we delivered 85,000 copies of publications to producers covering a range of subjects. Our two magazines to raise awareness of on-farm R&D applications, *Frontier* – launched in May for northern producers – and *mIaPrograzier* for southern producers, were delivered to 30,000 readers Australia-wide.



Frontier delivers on-farm R&D applications for northern producers

Active participation in EDGENetwork workshops continued this year with the total number of participants in the last five years reaching 11,000.

Our ongoing series of producer forums, workshops and expos gathered more momentum this year. Continued strong interest in, and uptake of, the *More Beef from Pastures* producer's manual and associated workshops has now equipped over 8,000 producers with tools and information to better manage their beef enterprise. The launch of our *Going into Goats* manual in April has also provided a key resource for the goat sector. Our Prime Time events for sheep and lamb producers continued to prove valuable for many industry participants, this year focusing on the pastoral zone across several states, and the joint MLA/Australian Wool Innovation 'Making More from Merinos' forum added value for merino producers.

Our major investment in the Grain & Graze program resulted in 7,300 producer attendances in 134 different field events, seminars, training and presentations, with 99 demonstration trials now underway.

During 2005, we held an 'OJD Harvest Year' which focused on packaging and extending the research results to both researchers and producers. This included five new OJD publications, an *OJD R&D Update*, a segment in the autumn 2005 PrimeTime forums and a scientific conference in December 2005 attended by more than 100 researchers and industry and government representatives.

Summary of activities to promote uptake of on-farm R&D outcomes

	Total
Sheep/lamb producer activities	
MLA Prime Time event participants	2,635
EDGE <i>network</i> workshop participants	408
Producer research support participants	1,796
Southern beef producer activities	
More Beef from Pastures event participants	4,000
EDGE <i>network</i> workshop participants	520
Producer research support participants	439
Train-the-trainer workshop participants	78
Northern beef producer activities	
EDGE <i>network</i> workshop participants	150
Producer research support participants	776
Beef producer workshop pilot participants	124
Publications	
<i>mIaPrograzier</i> (targeting southern producers) subscribers	20,000
<i>Frontier</i> (targeting northern producers) subscribers	10,000
On-farm R&D publication copies distributed	85,000

Off-farm adoption and capacity

In the processing sector, we achieved a 10% increase in both awareness targets and participation and adoption targets for R&D outcomes, significantly exceeding our target of 5%.

In some areas, adoption has been exceptionally high. For example, approximately 80% of all sheep and 60% of all cattle processed now use at least one component of the MLA Computer Process Management System, developed through our R&D Partnerships program. As well, 90% of all processing plants now have a structured process for continuous improvement in occupational health and safety (OHS) management.

During the year, we initiated innovation strategies with five processors, and these are now at various stages of

implementation. Three of these companies have created co-funded innovation manager positions to coordinate implementation of these plans.

A Refrigeration Index for meat exporters, based on our computer modelling, was introduced last year as a way of predicting food safety in the meat chilling process. All registered meat export plants are now using the Refrigeration Index to improve their management of food safety risk and they are likely to achieve considerable cost savings once it is accepted by regulators.

We will continue to work with MINTRAC (National Meat Industry Training Council) using it as tool to gain maximum leverage for driving adoption of R&D outcomes. We will also focus on processor leadership and management capability and undertake research aimed at developing leadership and organisational capabilities in the processing sector.

Leadership development

Our Red Meat Industry Professional Development program has continued to deliver significant benefit since its inception. The program develops young business professionals in a commercial environment, underpinning succession plans for tomorrow's industry leaders. These participants have the potential to facilitate rapid adoption of sophisticated sciences, assist implementation of advanced manufacturing practices and contribute to the sustainability of the industry.

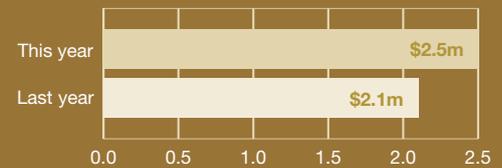
To date, 70 undergraduates have been placed in over 25 sites across Australia.



Graduate participants on a tour of a processing plant

Supply chain initiatives

INVESTMENT



OBJECTIVE

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

KPIs

- Improve lamb industry awareness of supply chain opportunities
- Implement R&D for intensive feeding and finishing systems in lamb and sheepmeat
- Establish R&D into e-technology in supply chain management

OUTCOMES

- Processor workshop held to develop future directions
- R&D program for lamb and sheepmeat finishing implemented
- Work is underway on projects to understand benefits of e-technology

BENEFITS

- Improve efficiencies through better supply chain management
- Review of nutritional and animal husbandry recommendations available
- e-technology and decision tools to add value and reduce costs

FUTURE

- Lamb Convention planned for 2007
- Develop industry-endorsed code of practice for intensive lamb finishing
- Continue work in the area of practical application of e-technologies

New R&D

A comprehensive research and development program for intensive lamb and sheepmeat finishing was implemented through the year. This included establishing an industry organisation to encourage communication, uptake of technology and to work with the Sheepmeat Council of Australia and MLA to prioritise R&D.

The program has delivered a comprehensive review of nutritional and animal husbandry recommendations. Collaborating with industry, we began developing a comprehensive code of practice for lamb and sheepmeat enterprises, with appropriate involvement of state and federal agencies.

e-technology

Through-chain traceability has been a major focus of the Supply Chain Management program for a number of years. Industry has achieved an excellent adoption rate of the GS1 system (a global standard for unique identification of trade items – formerly EAN).

Currently, approximately 70% of Australian red meat product is GS1-compliant. Export trials have identified that this system meets Food Safety Inspection Service requirements and could replace the port mark system. Port mark issues are a major reason for the rejection of product going into the US, particularly the growing trade in chilled beef, so there will be significant advantages in changing this system. Over the next year we will continue to assist industry in implementing the GS1 system, and we will support Australian Quarantine and Inspection Service (AQIS) and Australian Meat Industry Council in overcoming the illegibility of port marks as a reason for rejection of whole containers of export product.

We are working with a number of R&D and industry partners in a range of new projects aimed at understanding the benefits for meat industry supply chains of using e-technology. To date, we have focused on reliability, simplifying data capture and, through the Sheep Cooperative Research Centre, developing decision tools to add value to e-tags. Our work in this area will continue with an increasingly strong whole-of-chain focus on adding value to e-tags in practical situations.

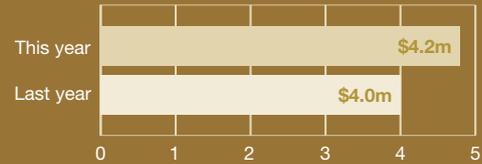
Trialling of e-technology and decisions tools to add value is proceeding well, and knowledge of how to use the technology for benefit on- and off-farm is growing.

In conjunction with AQIS, we developed the electronic Meat Transfer Certificate (eMTC). Not only will the eMTC give significant industry saving through reduced labour, it also allows valuable traceability data to be transferred. Industry savings delivered through this technology are initially estimated to be up to \$2.3 million per year.

A comprehensive and rigorous strategic audit of industry supply chain capacity and efficiency will be completed during 2006-07, and the findings will establish the basis for further R&D investment in the development and enhancement of e-business systems.

Market information

INVESTMENT



OBJECTIVE

Provide effective, targeted market information

KPIs

- Maintain high subscriber approval for flagship publications
- Continue as industry's first port of call for market information
- Meet service standards for delivering NLRS reports and publications

OUTCOMES

- Evidence reflects high approval rating
- Provided web-based news-as-it-happens and global red meat database
- Exceeded all standards in regard to production of market reports

BENEFITS

- Transparent, accurate reports and analysis supports market efficiencies and reduces price volatility
- Effective industry and government planning and policies
- Market trends for customer specifications and prices

FUTURE

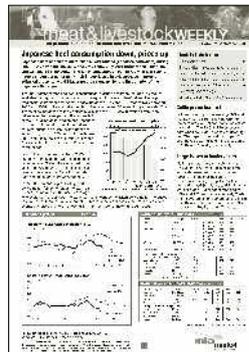
- Formal measurement and review to be conducted in 2007
- Develop plan to increase market information uptake
- Achieve ISO certification for delivery of market information

Market information services

In an eventful year for global meat markets, we kept producers, and a growing number of local and international clients, up to date on the latest market developments and their implications.

Once again, our cattle and sheep projections attracted widespread interest from the media, industry, government and agribusiness and provided a valuable resource for developing industry plans and programs.

We expanded and improved our web-based services, significantly strengthening our position as the 'one stop shop' for red meat market information. The web news service was enhanced to ensure that all important local and international livestock and meat industry news appeared on the website (www.mla.com.au) within 24 hours. In addition, we provided free access to our extensive web-based market information database, and we expanded other web content, particularly relating to key markets and competitors.

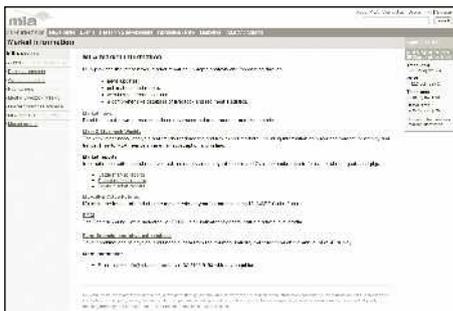


Meat & Livestock Weekly published each Friday gives a round up of the week's market activity

Our market information publications were also improved with a review of the market information newsletter *Meat & Livestock Weekly*, resulting in more articles and commentary and additional graphs and data. The production of this flagship publication was also streamlined to ensure that the strict customer service standards are met.

An audit of the global red meat database was completed and deficiencies remedied. A rolling, regular audit system was instigated to keep the database up to date and accurate. Areas for future expansion were also highlighted and data automation work logged to improve both efficiency and accuracy.

The uptake of price risk management within the cattle industry increased substantially during the year, assisted by our risk management program. Forward and basis contracting is becoming more popular, the Commonwealth Bank, among others, launched new over-the-counter forward pricing products and trading in the MLA/SFE Cattle Contract rose substantially.



Online market information has been enhanced



Peter Barnard PhD Econ – general manager, economic planning and market services

Peter is well-respected within the agribusiness sector and government. He has many years' experience in agricultural economics and is an active player in international markets access.

National Livestock Reporting Service

Subscriptions to our National Livestock Reporting Service's (NLRS) market reports continue to grow at a consistent rate, increasing by 8% during the year. This was due to a greater number of MLA members accessing the suite of market information available free to members.

Responding to changing market needs, we reviewed and enhanced a number of reports during the year. Direct feeder cattle reporting now provides more relevant benchmarks of short, mid and long fed direct cattle prices, and a new report was introduced containing increased breakdown of prices by breed and dentition. Three lamb market indicators were introduced representing light slaughter lambs, Merino lambs and restocker/feeder lambs. Additionally, the supermarket indicator was collapsed into the trade lamb indicator, while the export lamb indicator was renamed the heavy lamb indicator.

Classifications used in hide market reporting were also revamped, increasing the level of segregation for green hide prices and providing a more relevant breakdown of individual hide categories on a state-by-state basis.

Continued improvements are being made to our web-based NLRS market information providing easier access to detailed market reports for MLA members. These improvements incorporate daily livestock market updates and weekly individual state-based market comments for sheep and cattle. The market information area of the website continues to receive a high percentage of overall visits to the website.

We developed a quality management system to underpin the delivery of accurate market reporting and analysis. The system leverages existing operational procedures and standards and provides the platform for achieving ISO certification.

Discussions were held with the NSW Saleyard Operators Association and Telstra on the feasibility of integrating advanced technologies to enhance information flows. Currently, live video market reporting and online selling are the main projects receiving attention.



Leann Dax, livestock market officer covering a sheep and lamb sale in Wagga Wagga, NSW

STRATEGIC RESEARCH AND DEVELOPMENT



Greg Harper, manager, strategic science

Born and bred in Brisbane, Greg's introduction to the red meat industry came through his father, a butcher who operated a boning room. After completing a Bachelor of Science and a doctorate in Biophysics, he spent 10 years doing medical research in Sweden and the US before returning to Australia and joining CSIRO in 1992.

Greg joined MLA in January 2006, on a three-year secondment from CSIRO, to manage our strategic R&D portfolio and take the opportunity to develop a higher level of collaboration between MLA and CSIRO.

"We operate within a complex environment where MLA sits between researchers and industry. The job lets me float across the landscape of Australian science, choosing the best projects to meet industry needs," says Greg.

Strategic basic science is a process of collecting knowledge with a view to solving a problem or making process improvements. It is by nature a 'high risk' activity where return on investment is not guaranteed, but potentially large – not unlike financial investments. Science takes time and so the investments tend to be longer-term. Although it is higher risk, without strategic

science Australian industry would be left behind its global competitors.

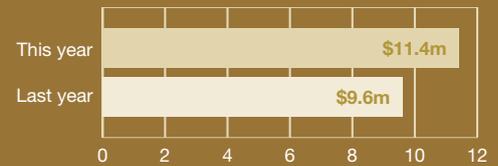
"The gene markers for marbling used today were made possible by work done 50 years ago. Likewise, decades of complex science underpin the Rainfall to Pasture Outlook Tool – a fantastic innovation used by livestock producers around Australia."

As for the year ahead, in Greg's line of work that isn't a lot of time. "It's great to a part of something that engenders such energy and creativity. MLA's contribution to strategic science brings a lot of talent to the industry, so who knows what's possible. We confidently expect progress in our sheep genomics work, delivering new DNA markers, which promises increased profitability of the sheepmeat industry."

And what does a biophysicist do in his spare time? For Greg, the lure of a good rock band is too much to pass up, and when Big Day Out comes around Greg can be found in the crowd with his teenage son and daughter.

Strategic R&D

INVESTMENT



OBJECTIVE

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

KPIs

- Establish major ovine genotyping capability
- Initiate targeted post-doctoral fellowship program
- Variability in lamb eating quality significantly improved

OUTCOMES

- Completed end-sequencing enabling fast-tracking of genotyping
- Three scientists accepted two-year postdoctoral fellowships
- Variability of sheepmeat eating quality significantly reduced

BENEFITS

- Increased rate of discovery of useful markers, and faster delivery to industry
- Attract and retain intellectual talent in meat industry research
- Customer satisfaction with consistent product

FUTURE

- Identify gene markers for industry use
- Align post-doctoral work with our industry program
- Trial device for predicting eating quality

New technologies for on-farm application

In August, the sequencing of small fragments of the sheep genome was completed. The collaborative SheepGenomics program played an integral role, both financially and intellectually, in a multi-national venture to deliver the sequencing, which has the potential to revolutionise sheep breeding and selection.

With federal government support, the International Sheep Genome Consortium, formed through the SheepGenomics program, has developed a strategy for the discovery of more than 80,000 ovine SNPs (next generation DNA markers) to fast-track genotyping. Experimental work in this long-term project has now started.

We expect this work to give an increased rate of discovery of useful markers and reduce the time taken from discovery to delivery to industry.

The web-based Rainfall and Pasture Outlook Tool was launched in October. The tool allows for prediction of pasture growth based on historical rainfall data, and was named fourth in the *Business Review Weekly's* top 10 innovative new products for 2005. It shows actual rainfall indices of soil moisture and pasture growth for the past nine months and an outlook for the next three months over 3,300 locations across southern Australia.

The tool, available from our website, was promoted extensively as a key component of the MLA More Beef from Pastures program. Further work has been commissioned to extend the geographic range of the tool.

Scientist training

Three outstanding young scientists accepted two-year postdoctoral fellowships under our new Postdoctoral Fellowship program. The program provides career continuity for talented researchers now, and encourages them to focus their energies on meat production problems into the future. This will help to address the impending shortage in trained scientists and technologists for rural industries.

Meat quality science and technology

Since the adoption of meat electronics as a critical enabling technology in the Sheepmeat Eating Quality program, variability in the eating quality of sheepmeat product supplied by a major supermarket supply chain has been shown to have reduced significantly. Meat electronics allows for the control of sheepmeat product categories that would normally miss the critical pH/temperature window required during carcass chilling to assure tenderness.

Taking this new technology to the next level involves the first installation of an electronic device for predicting either 'cold shortening' or 'heat toughening' of sheepmeat in a meat processing plant. This device, which is now in place at a plant, comprises one module of the Smart Stimulation system. Future trials will evaluate its potential for predicting final pH and tenderness after carcass chilling.

OTHER INITIATIVES

INDUSTRY AND CORPORATE COMMUNICATION • LIVE EXPORT STANDARDS • RESEARCH AND DEVELOPMENT
PARTNERSHIPS • CORPORATE SERVICES

Rebecca Arnott, Brand manager, AAco getting water rations during a leadership activity in the Kimberleys WA



The future of our industry, as with any industry, will hinge on the calibre of leaders coming through the ranks. MLA is committed to developing a strong pool of talent to lead the red meat industry into the future, and make a significant contribution to the growth and prosperity of rural Australia.

As well as supporting a range of post-graduates and providing scholarships to attract and develop talent within the industry, we are also a sponsor of the Australian Rural Leadership Program. The program aims to develop participants' personal growth, skills, knowledge and networks to be effective within, and beyond, their own industry.

This year, we sponsored Rebecca Arnott, Brand manager, Australian Agricultural Company. Rebecca has been dedicated to the beef industry since leaving university in 1995. Over the last 10 years she has spent three years in the US and Zimbabwe working on feedlots, cattle farms, breeding stations and in an extension role with the Zimbabwean Commercial Farmers Union.

In Australia, she has worked as a market analyst for the NSW Meat Industry Authority, as an extension officer for NSW agriculture and was CEO of Hunter Natural

Co-operative Ltd before joining AAco as their Brand manager. In 2004, Rebecca was awarded the Rural Industries Research and Development Corporation's Rural Women's Award.

Rebecca is among the 31 rural and regional leaders who began the program last year. One highlight of the program was a two-week leadership development activity in the Kimberleys in WA.

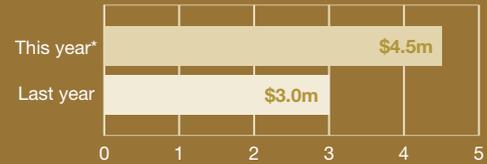
"The Kimberley experience was undoubtedly a turning point in my career. It was physically invigorating, emotionally challenging and a social awakening to the culture of indigenous Australians. I left there knowing that, with the right skills, I could do whatever I choose.

"Many aspects of the program have challenged me and now have me thinking more laterally. Highlights have included negotiation, media training, understanding emotional quotients and our study trip to Brazil. I feel better equipped to put my hand up for leadership positions and have since applied for and have accepted a national board position" says Rebecca.



Industry and corporate communication

INVESTMENT



OBJECTIVE

Increase the awareness and value of MLA activities through programs investment

KPIs

- Increase member awareness of MLA activities to 96% by 2008
- Increase membership to 35,000
- Increase member value of MLA activities to 75% by 2008

OUTCOMES

- 96% of members aware of MLA activities
- Membership at 30 June 39,086
- 72% of members say they get value from MLA

BENEFITS

- Industry informed of opportunities created from levies investment
- Higher level of engagement via publications, emails, events, etc
- Confidence in levies investment

FUTURE

- Improved use of communications channels
- Continued promotion of MLA membership
- Improved tailoring of information

Create awareness

Media is an important channel for communicating to all producers the opportunities created from their levies investment. This year we continued our active media presence, achieving regular and prominent coverage in the rural media, including front-page coverage for initiatives such as the launch of the *Going into Goats* producer's manual.

Our rebuilt corporate website was launched in September offering a more flexible navigation and an improved platform for delivering information. The new site allows for home news stories and the content management system provides a more efficient way of managing and updating content. Work is now focusing on refining and enhancing content.

Through the year we focused on identifying information gaps and audience/industry needs. As a result, three communications campaigns were undertaken supporting the Beef Industry Integrity, Live Exports and International Marketing programs.

Demonstrate relevance and value

Our monthly magazine, *feedback*, is central to our communications with members. To further enhance its relevance, we introduced three tailored versions of each edition – north, south-west and south-east. Each edition carries up to 30% of region-specific content, including regional market news. The tailored editions were introduced with a minimal additional cost of around 2%.

In addition to *feedback*, we also published the quarterly *mLaPrograzier*, a magazine with practical on-farm applications from our R&D for southern production systems. To complement *mLaPrograzier*, in May we launched *Frontier*, a sister title for northern production systems.

All our magazines are free to members and circulation of *feedback*, *mLaPrograzier* and *Frontier* currently stands at around 41,000, 20,000 and 10,000, respectively.

A revised edition of the *Product catalogue* published in January focused on practical information and tools for producers, and encouraged readers to visit the website for an extensive list of publications. The *Product catalogue* generates a substantial interest in our information resources with publications orders increasing up to 50% in the two months following its distribution.

Our corporate reporting activities are an important part of both our corporate responsibilities, and accountability to members in demonstrating a return on levies investment. Each year we submit our annual report to the Annual Report Awards to be measured against best



Our new corporate website launched in September provides a more flexible platform for delivering timely information and services

* Figure includes expenditure for World Meat Congress, a cost-neutral event. For revenue details, see page 70.

Scott Hansen B Rur Sc, Grad Cert Comm – general manager, industry affairs and communication

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.



practice. Our 2004-05 report achieved a Silver award, with Bronze awarded in the previous two years.

A high level of engagement with members was evident at the 2005 annual general meeting. A record 8,838 members registered for full voting entitlements, over 2,000 more than the 2004 AGM, and voting reflected confidence in the company's management.

During the year, an independent review of MLA membership and voting entitlements was conducted with support from, and in consultation with, all industry sectors. Subsequently, a number of recommendations have been implemented, including refining the membership eligibility criteria, extending the lodgment for levies notices and exploring alternative avenues for increasing MLA membership. The only outstanding recommendation calls for automation of the collection and collation of member's voting entitlements through the Levies Revenue Service. This is currently under industry consideration.

Proactively engage

Membership is a critical path to proactively engaging with producers and this year we undertook targeted campaigns to grow our membership. Two campaigns were undertaken, one each in the north and in the south. The campaigns were extremely successful producing a 17% growth in membership to reach 39,086 at 30 June. This result far outstripped our target of 35,000 members.

Face to face events are the most effective way of highlighting industry developments and the opportunities created from levies investments. Each year, our program of events and event sponsorships keeps us in contact with producers, industry and government.

The highlight this year was our leading role in hosting a very successful World Meat Congress in Brisbane in April. The event, attended by over 700 international and Australian industry leaders, was both a critical and financial success and showcased the Australian industry as a world leader in the red meat industry.

The Congress was immediately followed by the triennial Beef 2006 in Rockhampton, Queensland. With over 60,000 visitors, our sponsorship of the event offered an ideal opportunity to showcase MLA's work through two half-day forums. The event also provided an excellent platform to launch our new *Frontier* magazine.

Our annual R&D Forum and a combined RDC 'Rewards from Innovation' breakfast, forum and dinner were held in Canberra. Attendance by politicians, advisers and bureaucrats ensured a flow of information to and from government, a major investor in our work. Two MLA submissions were finalists for the awards – Meat Standards Australia and the Refrigeration Index.

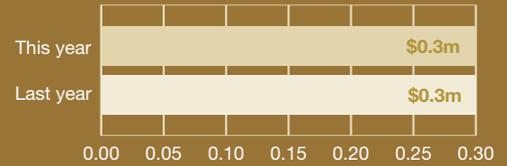
Additionally, we maintained ongoing consultations with peak councils and continued briefings on issues to ensure industry involvement.



The World Meat Congress attracted international red meat industry leaders and influencers to Brisbane in April 2006

Live export standards

INVESTMENT



OBJECTIVE

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

KPIs

- Reduction in average mortality statistics
- Two management tools developed

OUTCOMES

- No significant shipment incidents
- NLIS link and compliance database tools developed

BENEFITS

- Build community trust in good welfare practices
- Exporters have more control over information needed to verify Standards compliance

FUTURE

- Increase efforts to ensure uptake of R&D outcomes
- Roll out and promote new management tools

Pleasingly, no significant shipment incidents occurred through the year. There were only two sheep shipments and one cattle shipment with mortalities slightly above reportable levels – over 2% for sheep, and over 1% for cattle. Overall, mortalities were 0.1% for cattle, 1.0% for sheep and 1.1% for goats.

While a risk management model has been developed, there is little incentive for exporters to adopt it without a reduction in the cost of regulatory control. We are working towards a system whereby an exporter's record and the quality of its risk management systems can impact the costs of its regulatory oversight.

This year, Version 2 of the *Australian Standards for the Export of Livestock* was completed and released.

We renegotiated the Export Control (Animal) Orders to reduce the level of intervention by regulators and consequent cost for airfreight shipments.

Two software management tools were developed this year. One links NLIS (National Livestock Identification System) to protocol treatments, and the other is a database for compliance information. Both tools are currently being trialled by exporters.

We continued work on developing a new training course for on-board veterinarians and new-entrant training is under consideration.

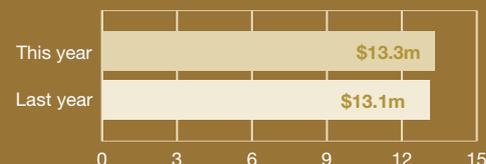
Mike Hayward BSc Ag MCom – general manager, livestock exports

After teaching farm management and agriculture policy, Mike worked as a research economist for NSW Department of Agriculture. Joining MLA in 1979, he has held a number of senior roles including managing the Tokyo office. With his experience in overseas markets he now provides leadership in our Live Exports program.



Research and development partnerships

INVESTMENT



OBJECTIVE

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

KPIs

- Demonstrate adoption by industry of partnership project outcomes
- Support an innovation culture and capability

OUTCOMES

- 80% of sheep, 60% of cattle processed using at least part of MLA's Computer Process Management System
- 5 processor innovation strategies initiated

BENEFITS

- Case studies show R&D partnerships bridge the adoption capability gap in the processing sector

FUTURE

- Develop targeted new business development strategies to increase partnership opportunities

The objective of our R&D Partnerships program is to significantly increase the level of R&D investment by the red meat industry. In doing this, we aim to increase the innovation culture and capability of individual enterprises and the industry as a whole.

The program, which is undertaken via the MLA Donor Company, encourages projects from all industry sectors.

This year there were 28 new R&D partnership projects approved with a total budget of \$22 million. This brings to \$85 million, the total value of projects approved since inception in 1999. The \$19 million expenditure target for 2005-06 was not achieved due to contractual and project management issues, primarily associated with a small number of complex syndicated projects which have taken longer to establish than originally anticipated.

Following are just two examples of technologies developed through this program that are delivering significant benefit to the industry.

Pelt-o-matic

The 'Pelt-o-matic' is a relatively simple and cost-effective machine for removal of sheep pelts on conventional production lines with a throughput of 2,000 to 3,000 head per shift. The development was driven by a need to find a way to overcome the problem of grain strain caused by existing mechanical pelt pullers.

By September 2005, 11 Pelt-o-matics had been sold into the Australian market and four to overseas clients, representing a 50% market penetration. The key benefits include reduced labour, reduced injury claims, improved pelt quality and improved carcase hygiene.

BladeStop

Australian abattoirs have historically experienced high injury rates given the reliance on manual labour and high risk equipment such as knives and bandsaws. While cut-proof gloves significantly reduced knife injuries, bandsaw injuries continue.

In collaboration with a commercial automation company and several processing plants, we developed a band saw operator aid to reduce the severity of bandsaw injuries within the processing sector and butcher stores.

The BladeStop safety mechanism is a sensing system that enables the saw to sense the difference between a piece of meat and a person's hand. Developed through an exhaustive consultation process, the mechanism is currently being installed in 20 red meat processing plants and will be extended to the retail sector in the coming year.

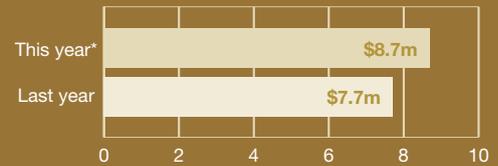
This technology also has obvious social benefits. One small sheep processor alone in a five-year period reported six amputations and 20 lacerations requiring surgery and stitches. The loss of function and subsequent quality of life of injured employees are difficult to quantify.

With the skills shortage currently being experienced in Australia, the industry's image as a safe place to work is critical to attracting and retaining employees, and ultimately the sustainability of the industry.

MLA Donor Company projects have been shown, through case studies, to be effective intervention strategies for bridging the adoption capability gap in the processing sector for both adopters and technology providers.

Corporate services

INVESTMENT



OBJECTIVE

Provide support services and accurate, timely and meaningful information

KPIs

- Strengthen our stakeholder service culture
- Clean audit report
- Develop and implement MLA's system plan

OUTCOMES

- Staff survey showed stakeholder focus highest priority
- Received clean audit for 2005-06 financial statement
- Phase 1 of IT enterprise system underway

BENEFITS

- Employees focused on stakeholder needs
- Compliance with best practice policies and procedures
- Cost benefits and best practice from integrated IT system

FUTURE

- Review HR strategy to improve MLA/staff interaction
- Developing an independent internal audit function
- Continue work on IT enterprise system

Overview

Expenditure incurred in providing corporate services to the company totalled \$8.7 million for 2005-06 compared with \$7.7 million for 2004-05.

A number of key initiatives were undertaken during the year, including:

- upgrade IT and communications infrastructure globally
- major revision of the our website
- investment into Corporate Governance programs with the expansion of the Risk Management program

Risk management

During the 2004-05, a major review of corporate governance was undertaken and a risk management program was developed. This program formed the basis for the company's internal audit review process where management, with the assistance of independent auditors, reports to the Audit Committee quarterly, who in turn report to the board.

Under this program, a new foreign exchange policy and procedure was adopted by the board and implemented in November. Independent auditors carried out reviews of the company's accounts receivable and expense claim processes. Ernst & Young assisted management with a review of the impact of the new Australian Accounting Standards and carried out a regulatory compliance review for all of our international offices.

Information technology

Following the review last year of MLA information technology systems, SAP was selected to meet our

ongoing systems requirements. Through SAP, we will have a world-class enterprise resource planning system to underpin our operations. This year work was undertaken on developing the first phase – the Finance and Project Management modules. These were implemented in September 2006. This will immediately provide numerous operational improvements and efficiency gains through significantly improved functionality and reporting.

The second phase of this project, the Customer Relationship Management and Business Intelligence modules, is planned for 2006-07.

Additionally, this year we implemented a combined voice, video and data network. This installation allows us to communicate with our main offices via telephone and video. By using our private network for these communications, we are providing immediate and ongoing telephone and travel savings, while simultaneously allowing our staff and partners improved and more flexible means of communication.

Human resources

As of June 2006, MLA employed 254 staff, 219 based in Australia and 35 based overseas.

During the year we implemented a company-wide skills development initiative, focusing on a number of core competencies aligned with our company values. Staff participated in productivity workshops to improve personal efficiency and enable our people to further improve the delivery of our services and programs.

* See Overview.



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 photographic company and in the oil industry, both in Australia and overseas, before joining The Dairy Farmers Group as chief financial officer, and recently as their senior adviser.

Voluntary employee turnover was 12%. This is well down from previous years and can be attributed to a strong focus on improving employee capability and the linkage between performance and reward implemented as part of MLA Enterprise Agreement 2005–2008 which was certified during the year.

The Code of Business Conduct and Ethics was reviewed and each staff member is required to complete a certificate of compliance.

Under a new chairman and managing director, our mission statement and values were revised and measured against industry expectations. A refreshed mission statement includes a focus on delivery of services and solutions, and acknowledges our two main partners – industry and government.

MLA's mission:

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

We also revised our values and added an extra statement which reflects our endeavour to always be mindful of our investors.

MLA's 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

To make sure our work individually and collectively achieves set objectives, we reinforced to staff the essential link between each individual's performance plan, and how our work impacts on industry programs and the meat industry's strategic plan and government's priorities. (See Shared goals diagram)

The company's direction for 2006-07 was renewed with the identification and communication to staff of 11 'critical success factors' that will direct our focus for the year ahead.

For the fourth consecutive year, we were recognised as an Employer of Choice for Women.

HOW WE PLAN OUR WORK

Our program of work aligns with industry's and government's goals, and addresses current and emerging issues for industry. All individual staff performance plans can be linked back to industry and/or government goals.

Shared goals



CORPORATE GOVERNANCE



Left to right:

1. Paul Troja
2. Peter Trefort
3. Peter Boyden
4. Peter Milliken
5. Don Heatley
(Chairman)
6. David Palmer
(Managing director)
7. Chris Hudson
8. Diana Day
9. Wayne Jackson
10. Ian Watson
11. Jay Simms

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 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 highlighted as follows:



Northern livestock production systems – 5, 11
Southern livestock production systems – 1, 2, 4, 6, 10
Feedlot systems – 1, 5, 6
Processing – 1, 2
Retailing – 1, 2, 5, 9
Domestic marketing – 1, 2, 3, 9, 10
International export and marketing – 1, 2, 3, 5, 6, 9, 10
Live exports – 5, 11
R&D strategy, evaluation, commercialisation and IP management – 5, 7, 8
Environment/sustainability – 2, 4, 7, 8
Food science and technology – 7
Human nutrition/food safety – 7
Commercial background – 1, 2, 3, 4, 5, 9, 10
Financial management – 3, 9
Corporate governance – all
Advocacy/communication – 2, 4, 5, 6, 8, 9, 10
Company director – 1, 2, 3, 4, 5, 6, 7, 8, 9, 10
Visionary/strategic – all

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 2006.

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 February 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.



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 1884 Pty Ltd. Mr Boyden is a member of the Selection and Remuneration Committees.



Dr Diana Gwendoline Day BA (Hons), Dip Ed, PhD FAICD
Director since 2003

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. She is a director of the Sugar Research and Development Corporation. Dr Day is a director of MLA Donor Company Limited.



Christopher Burgoyne Hudson BSc (Hons) MSc PhD FTSE FAIFST FIAFST
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 a consultant – management and strategy at 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 chairman of the Membership Committee and a member of the Audit Committee.



John (Jay) Field Simms BAg Sc (Livestock Production)

Director since 2005

Mr Simms owns and manages a cattle station in north-west Queensland. Previously he owned and operated export yards in Broome, WA, as well as grazing stock for live export. Mr Simms is a member of the Northern Beef Production Industry Committee, chair of the West Queensland Beef Research Committee, and delegate to the Northern Australia Beef Research Council. 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 he is a member of WA Agricultural College Combined Advisory Councils. Mr Trefort is a member of the Membership Committee.



Paul Anthony Troja

Director since 2003

Mr Troja is general manager and a director Rockdale Beef Pty Limited. Previously he held various roles for the Angliss Group and the Australian Meat & Live-stock 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 RETIRED OR RESIGNED DURING THE YEAR

David Charles Crombie BEc – retired November 2005

Mr Crombie is director of GRM International, a company that provides technical services in agriculture and manages beef cattle and sheep properties. In addition to these roles, he is a director of FKP Limited, chairman of the Australian Leadership Foundation, president of the Queensland Rugby Union and recently retired as a director of the Australian Rugby Union. He operates family cattle and cropping properties in southern Queensland. Mr Crombie was chairman of the Selection Committee.

Vicki Coryn Hardwick BEd PostGrad Eth – retired November 2005

Mrs Hardwick co-founded the Hardwick's group in 1973. She was a director of Flockcare, charged with developing quality assurance standards for the processing sector, a director of MINTRAC and a director of the National Meat Industry Occupational Health & Safety Board. Mrs Hardwick is a director of Primesafe Victoria, a regulatory body licensing red meat, chicken and seafood industries. Mrs Hardwick was a member of the Remuneration Committee.

Mark Edward Spurr BBus ASA FCIS FAICD – resigned February 2006

Mr Spurr has extensive corporate experience in the international agri-food industry. He has held a number of senior roles with Goodman Fielder including managing director of its global gelatin business and general manager of the North American region, based in the US. Prior to that Mr Spurr held executive positions in the food industry in Australia and South America. Mr Spurr was a director of AUS-MEAT Limited and of MLA Donor Company Limited.

COMPANY SECRETARY

Ole Elsaesser BComm, CICA, ACA, GAICD Resigned July 2006

Mr Elsaesser has extensive experience in finance, information technology, corporate governance and change management. Prior to joining MLA, he held senior roles at CSR Limited, including chief information officer and general manager, finance. Prior to CSR, Mr Elsaesser was the chief financial officer for ASX-listed Placer Pacific Limited. At MLA, he was the company secretary and general manager corporate services as well as a director of MLA Donor Company Limited.



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.

CORPORATE GOVERNANCE STATEMENT

Our corporate governance provides a framework within which:

- the board of directors is accountable to MLA members and government for the operations and performance of the company
- the risks of the business 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 (ASX) Principles of Good Corporate Governance and Best Practice Recommendations. 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.

Our corporate governance policies are included on the company's website.

Laying a solid foundation for management

The board has identified key duties that will be carried out by the board, with assistance from its committees. The duties, as set out in the *Board Charter*, include:

- providing input into and approving management's strategies, budgets, programs and policies and

assessing performance against strategies to monitor both the performance of management as well as the continuing suitability of strategies

- overseeing the company and reviewing operating information to understand, at all times, the health of the company
- approving and monitoring significant capital expenditure and significant commitments
- ensuring that the company operates with an appropriate corporate governance structure, in particular ensuring that it acts legally and responsibly on all matters and that the highest ethical standards are maintained
- ensuring that the company operates in accordance with its objects and the Industry Memorandum of Understanding, including that appropriate consultation takes place between the company and the peak councils; and ensuring compliance with reporting obligations arising out of the Commonwealth Deed of Agreement
- monitoring the balance of skills and experience on the board
- appointing, evaluating and determining the duration of appointment of the managing director
- reviewing remuneration paid to the managing director and remuneration paid to other executives and staff to ensure consistency with responsibilities, performance and market rates and with company objectives
- approving policies on and overseeing the management of business, financial and foreign exchange risks
- reviewing and monitoring processes and controls to maintain the integrity of accounting and financial records and reporting and approving financial results and reports for release to members
- ensuring that membership issues are dealt with appropriately

Structuring the board to add value

The ASX principles state that a majority of the board should be independent directors. MLA has 11 directors with only the managing director being a member of management.

A board Selection Committee, comprising three members elected by producers, three members appointed by peak councils and three MLA directors, endorse candidates for election to the MLA board of directors based on skills, experience and industry knowledge. The skills and experience each director brings to the board are outlined on page 51.

The responsibilities and structure of the Selection Committee are set out in the *Selection Committee Charter*.

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.

The *Board Charter* requires directors to report material personal interests that relate to MLA's affairs and to advise all directorships held. Directors with material personal interests in a particular MLA activity are prevented from voting on that matter. The *Board Charter* also reminds directors of the requirement to comply with the company's *Code of business conduct and ethics*.

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

The chairman is elected by the board and is an independent non-executive director.

Promoting ethical and responsible decision making

Our *Code of business conduct and ethics* embodies our values and provides clear guidelines to ensure our commitments to stakeholders are met. 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
- complying with the law in all the jurisdictions in which we operate

All our management and employees are required to confirm their knowledge of, and compliance with, the code annually.

Safeguarding integrity in financial reporting

An Audit Committee comprised entirely of non-executive directors assists the board in relation to:

- financial reporting
- internal control structure

- risk management
- appointing, assessing and ensuring the independence of external auditors
- internal audit activities
- complaints in relation to controls
- breaches of the Corporations Act

In addition, the managing director and the general manager, corporate services have made a representation that the financial reports represent a true and fair view, in all material respects, of the company's financial condition and operating results, in accordance with relevant accounting standards.

The Audit Committee's responsibilities are set out in the *Audit Committee Charter*.

Making timely and balanced disclosure

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

Respecting the rights of members

We are committed to effectively communicating with members and encouraging member participation at our annual general meeting (AGM). This includes:

- communicating with members through our monthly magazine, *feedback*, newsletters, the website, producer events and an active presence in the media
- providing disclosure of AGM business in the company's Notice of Meeting
- posting the Notice of Meeting and explanatory material on our website
- holding our AGM at different locations around Australia to facilitate participation by all members
- requiring all directors, senior management and the external auditor to attend the AGM
- posting a summary of the AGM on our website

Recognising and managing risk

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

We continually review and assess all strategic risks faced by MLA, including assessing the likelihood, occurrence and potential impact on the company. Risk mitigation procedures are identified for risks and responsibilities and specific actions are assigned to members of management.

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

The managing director and general manager, corporate

services 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.

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.

Remunerating fairly and responsibly

The board is responsible for reviewing remuneration arrangements for the board themselves. 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 MLA members.

The board is also responsible for reviewing and determining the remuneration for the managing director and the senior executive 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*, 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 executive team by remunerating fairly and appropriately with reference to relevant market conditions.

The managing director's and senior executives' salaries 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

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.

MLA DONOR COMPANY LIMITED

The business activities of MLA Donor Company Limited are overseen by a separate board of directors, which currently includes Professor Hudson, Dr Day and Mr Palmer. Mr Elsaesser and Mr Spurr were directors during the year with Mr Spurr resigning in February 2006 and Mr Elsaesser resigning in July 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
P R Boyden	7 (7)	–	–	2 (2)	1 (1)
D C Crombie	5 (5)	–	–	–	2 (2)
M E Spurr	8 (8)	–	–	–	–
D G Day	11 (12)	–	1 (2)	–	–
V C Hardwick	5 (5)	–	–	1 (1)	–
A M Heatley	12	1 (1)	–	–	1 (1)
C B Hudson	11(12)	–	–	3	2 (2)
W R Jackson	12	4	–	3	–
P R Milliken	12	4	4	–	–
D W Palmer	4 (4)	–	–	–	–
J F Simms	7 (7)	–	2 (2)	–	–
P J Trefort	12	–	4	–	–
P A Troja	12	4	–	–	–
I D S Watson	12	–	–	–	3

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 2006, 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

14 September 2006

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
- 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 results of the consolidated entity for the financial year was a deficit of \$4,028,000 (2005 surplus: \$543,000).

Group overview

The consolidated entity earned total revenue of \$154,560,000 (2005: \$140,194,000) which is comprised of the following:

- transaction levies \$82,012,000 (2005: \$72,192,000)
- research and development matching grants \$40,301,000 (2005: \$39,036,000)
- other income and revenues from non-operating activities \$32,247,000 (2005: \$28,966,000)

Total income received/receivable was less than total expenditure, which resulted in an operating deficit of \$4,028,000 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
14 September 2006

FINANCIAL REPORT

For the year ended 30 June 2006



Income statement	60
Balance sheet	61
Statement of changes in equity	62
Statement of cash flows	63
Notes to the financial statements	64
Directors' declaration	87
Independent audit report	88

Income statement

Year ended 30 June 2006

	Notes	Consolidated		Parent	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
CONTINUING OPERATIONS					
REVENUES FROM ORDINARY ACTIVITIES	3	154,560	140,194	154,560	140,194
EXPENDITURE FROM ORDINARY ACTIVITIES					
Markets and consumers		55,632	44,326	55,632	44,326
Product initiatives		19,012	17,738	19,012	17,738
Community concerns		11,022	12,360	11,022	12,360
Whole-of-chain efficiency		33,930	30,589	33,930	30,589
R&D partnerships		13,295	13,087	13,295	13,087
Strategic R&D		11,352	9,576	11,352	9,576
Corporate services		8,691	7,741	8,691	7,741
Other		5,654	4,234	5,654	4,234
Total expenditure		158,588	139,651	158,588	139,651
NET (DEFICIT)/SURPLUS FROM ORDINARY ACTIVITIES	18	(4,028)	543	(4,028)	543
TOTAL CHANGE IN MEMBERS' FUNDS	2(t)	(4,028)	543	(4,028)	543

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

Balance sheet

As at 30 June 2006

	Notes	Consolidated		Parent	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
CURRENT ASSETS					
Cash and cash equivalents	26(a)	32,464	38,828	32,443	38,828
Trade and other receivables	7	27,483	28,051	27,504	28,051
Prepayments and deposits	8	2,371	1,434	2,371	1,434
TOTAL CURRENT ASSETS		62,318	68,313	62,318	68,313
NON-CURRENT ASSETS					
Other receivables	9	377	1,051	377	1,051
Investment in associate	10	–	–	–	–
Other financial asset	11	–	–	–	–
Property, plant and equipment	12	4,056	1,986	4,056	1,986
TOTAL NON-CURRENT ASSETS		4,433	3,037	4,433	3,037
TOTAL ASSETS		66,751	71,350	66,751	71,350
CURRENT LIABILITIES					
Trade and other payables	13	23,948	24,093	23,948	24,093
Provisions	14	1,376	994	1,376	994
Other liabilities	15	1,411	2,089	1,411	2,089
TOTAL CURRENT LIABILITIES		26,735	27,176	26,735	27,176
NON-CURRENT LIABILITIES					
Other payables	16	190	378	190	378
Provisions	17	829	868	829	868
TOTAL NON-CURRENT LIABILITIES		1,019	1,246	1,019	1,246
TOTAL LIABILITIES		27,754	28,422	27,754	28,422
NET ASSETS		38,997	42,928	38,997	42,928
EQUITY – MEMBERS' FUNDS					
Contributed equity	28	9,031	9,031	9,031	9,031
Retained surplus	18	29,869	33,897	29,869	33,897
Reserves	19	97	–	97	–
TOTAL EQUITY – MEMBERS' FUNDS		38,997	42,928	38,997	42,928

The accompanying notes form an integral part of this balance sheet.

Statement of changes in equity

Year ended 30 June 2006

	Notes	Consolidated		Parent	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Cash flow hedges					
Gain taken to equity	19	97	-	97	-
Transferred to profit or loss for the period		-	-	-	-
Transferred to initial carrying amount of hedged item		-	-	-	-
NET INCOME RECOGNISED DIRECTLY IN EQUITY		97	-	97	-
(Deficit)/profit for the period		(4,028)	543	(4,028)	543
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE PERIOD		(3,931)	543	(3,931)	543

The accompanying notes form an integral part of this statement of changes in equity

Statement of cash flows

Year ended 30 June 2006

	Notes	Consolidated		Parent	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Levies collected		80,081	73,441	80,081	73,441
Research and development matching grants		40,898	35,959	40,898	35,959
Receipts from subsidiary		–	–	6,648	7,029
Receipts from processors and live exporters		13,938	15,521	13,938	15,521
Other receipts		11,494	14,800	4,846	7,804
Payments to suppliers and employees		(159,389)	(135,884)	(159,389)	(135,884)
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES	25(b)	(12,978)	3,837	(12,978)	3,870
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from disposal of property, plant and equipment		54	29	54	29
Purchase of property, plant and equipment		(3,205)	(1,402)	(3,205)	(1,402)
Interest received		2,171	2,164	2,150	2,131
NET CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES		(980)	791	(1,001)	758
NET (DECREASE)/INCREASE IN CASH HELD		(13,958)	4,628	(13,979)	4,628
Add opening cash brought forward		38,828	34,293	38,828	34,293
NLIS Commonwealth funds held for state governments	13	7,533	–	7,533	–
Exchange rate adjustments on cash balances		61	(93)	61	(93)
CLOSING CASH CARRIED FORWARD	25(a)	32,464	38,828	32,443	38,828

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

Notes to the financial statements

Year ended 30 June 2006

1. CORPORATE INFORMATION

The financial report of Meat & Livestock Australia (the "Company") for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 14 September 2006.

The Company 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

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139: *Financial Instruments: Recognition and Measurement*. The Company has adopted the exemption under AASB 1: *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* from having to apply AASB 132 and AASB 139 to the comparative period. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 32.

Except for the revised AASB 119: *Employee Benefits* (issued December 2005), Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2006.

AASB amendment	Affected standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for Group
2005-1	AASB 139: <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-3	AASB 119: <i>Employee Benefits</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-5	AASB 1: <i>First-time adoption of AIFRS</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-8	AASB 1: <i>First-time Adoption of Australian Equivalents to International Financial Reporting Standards</i> .	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-10	AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 101: <i>Presentation of Financial Statements</i> , AASB 114: <i>Segment Reporting</i> , AASB 117: <i>Leases</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 1: <i>First-time adoption of AIFRS</i>	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007

AASB amendment	Affected standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for Group
2005-11	AASB 101: <i>Presentation of Financial Statements</i> , AASB 132: <i>Financial Instruments Presentation</i> , AASB 139: <i>Financial Instruments Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
New Standard	AASB 7: <i>Financial Instruments: Disclosures</i>	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

The following amendments are not applicable to the Group and therefore have no impact.

AASB Amendment	Affected standard(s)
2005-2	AASB 1023: <i>General Insurance Contracts</i>
2005-4	AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 1: <i>First-time adoption of AIFRS</i> , AASB 1023: <i>General Insurance Contracts</i> and AASB 1028: <i>Life Insurance Contracts</i>
2005-6	AASB 3: <i>Business Combinations</i>
2005-7	AASB 134: <i>Interim Financial Reporting</i>
2005-9	AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> and AASB 132: <i>Financial Instruments: Disclosure and Presentation</i>
2005-10	AASB 133: <i>Earnings Per Share</i> , AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> and AASB 1038: <i>Life Insurance Contract</i>
2005-11	AASB 112: <i>Income Taxes</i> , AASB 133: <i>Earnings Per Share</i> , AASB 141: <i>Agriculture</i>
2005-12	AASB 1038: <i>Life Insurance Contracts</i> and AASB 1023: <i>General Insurance Contracts</i>
2005-13	AAS 25: <i>Financial Reporting by Superannuation Plans</i>

(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 to be distributed to state governments only under the direction of the NLIS Review Committee and the Minister.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(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 Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for derivative financial instruments and hedging applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

The Group 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 Group formally designates and documents the hedge relationship to which the Group 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 Group'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.

Accounting policies applicable for the year ending 30 June 2005

(a) Options contracts

The Group enters into Options contracts whereby it provides the right to buy specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from purchases in foreign currencies to protect the Group against the possibility of loss from future exchange rate fluctuations. Options contracts are usually for no longer than 12 months. Options premium paid were deferred on the balance sheet as at 30 June 2005. Exchange gains or losses on the Options contracts relating to hedges of specific commitments were deferred with any gains or losses recognised subsequently upon exercising of the options.

(b) Specific hedges

When a purchase was specifically hedged, exchange gains or losses on the hedging transaction arising up to the date of purchase and costs, premiums and discounts relative to the hedging transaction were deferred and included in the measurement of the purchase. Exchange gains and losses arising on the hedge transaction after that date were taken to profit and loss.

(j) Derecognition of financial assets and financial liabilities

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies applicable to the derecognition of financial assets and financial liabilities for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Derecognition of financial assets and financial liabilities *(continued)*

Accounting policies applicable for the year ending 30 June 2005

Financial assets

A financial asset was derecognised when the contractual right to receive or exchange cash no longer existed.

(k) Foreign currency translation

Both the functional and presentation currency of the Company and its subsidiary is Australian dollars (\$). Each entity in the Group 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 asset 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.

(l) 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, MLA 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.

(m) 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.

(n) 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.

(o) 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.

(p) Unearned revenue

Amount represents revenue received prior to completion of committed programs.

(q) 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 12 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.

(r) 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.

(s) 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 9.

(t) Income statement

The Company's Constitution does not allow transactions with members that would be recognised directly against equity.

3. REVENUE FROM ORDINARY ACTIVITIES

	Notes	Consolidated		Parent	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Revenues from operating activities					
Transaction levies	4	82,012	72,192	82,012	72,192
R&D matching grants		40,301	39,036	40,301	39,036
Other income	5	30,063	26,704	30,084	26,737
Total revenues from operating activities		152,376	137,932	152,397	137,965
Revenues from non-operating activities					
Bank interest		2,142	2,233	2,121	2,200
Net gain on disposal of other property, plant and equipment		42	29	42	29
Total revenues from non-operating activities		2,184	2,262	2,163	2,229
Total revenues from ordinary activities		154,560	140,194	154,560	140,194
4. TRANSACTION LEVIES					
Transaction levies:					
– Grainfed cattle		7,402	7,187	7,402	7,187
– Grassfed cattle		46,004	38,124	46,004	38,124
– Lambs		24,512	23,080	24,512	23,080
– Sheep		3,738	3,374	3,738	3,374
– Goats		356	427	356	427
Total transaction levies	2	82,012	72,192	82,012	72,192

5. OTHER INCOME

	Notes	Consolidated		Parent	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Processor contributions		11,650	11,916	11,650	11,916
Live exporter contributions		1,172	1,115	1,172	1,115
Co-operative funding		3,451	1,876	3,451	1,876
R&D partnership income		6,627	6,996	-	-
Income from subsidiary	24(c)	-	-	6,648	7,029
Commonwealth Government grants		1,485	915	1,485	915
Sale of products or services (a)		4,153	3,749	4,153	3,749
Other (b)		1,525	137	1,525	137
Total other income	3	30,063	26,704	30,084	26,737

(a) Included in this amount is income received from the sale of the Livestock Production Assurance National Vendor Declaration for \$2,001,000 (2005: \$1,459,000)

(b) Included in Other is income received from the World Meat Congress for \$1,281,000 (2005: \$nil). This income had been offset by total expenditure of \$1,056,000 (2005: \$nil) which is included in 'other' expenditure in the income statement.

6. EXPENSES AND LOSSES (GAINS)

Depreciation of non-current assets included in the income statement:

Leasehold improvements	294	143	294	143
Plant and equipment	754	617	754	617
Furniture and fittings	30	31	30	31
Total depreciation of non-current assets	1,078	791	1,078	791
Bad and doubtful debts – trade debtors	22	38	22	38
Operating lease rentals included in the income statement	2,792	2,627	2,792	2,627
Employee benefit expense:				
Wages and salaries	22,351	19,367	22,351	19,367
Workers compensation costs	93	79	93	79
Annual leave provision	439	8	439	8
Long service leave provision	355	267	355	237
Other post employment benefits	1,680	1,439	1,680	1,439
Termination benefits	85	-	85	-
Net foreign exchange (gain)/loss	(7)	337	(7)	337

7. TRADE AND OTHER RECEIVABLES (CURRENT)

	Notes	Consolidated		Parent	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Trade debtors (a)		3,312	4,516	3,312	4,516
Provision for doubtful debts		(4)	(59)	(4)	(59)
Trade debtors, net		3,308	4,457	3,308	4,457
Receivable from Subsidiary		–	–	21	–
Goods and Services Tax		305	–	305	–
Staff advances		92	56	92	56
Hedging foreign currency receivable (b)		97	–	97	–
Accrued revenue					
– Levies (a)		6,489	4,109	6,489	4,109
– R&D matching grants (a)		13,816	13,885	13,816	13,885
– Other (a)		3,376	5,544	3,376	5,544
Total accrued revenue		23,681	23,538	23,681	23,538
Total current receivables, net		27,483	28,051	27,504	28,051

(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 \$22,000 has been recognised as an expense for the current year for specific debtors for which evidence exists. The non-current amounts in note 9 are discounted using the Commonwealth Government bond rate.

(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.

8. PREPAYMENTS AND DEPOSITS

	Notes	Consolidated		Parent	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Deferred option premiums	29	135	80	135	80
Unrealised loss on options	29	–	448	–	448
		135	528	135	528
Prepayments		1,971	668	1,971	668
Deposits		265	238	265	238
Total other current assets		2,371	1,434	2,371	1,434

9. OTHER RECEIVABLES (NON-CURRENT)

	Notes	Consolidated		Parent	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Accrued revenue					
– Other	7(a)	377	1,051	377	1,051
Total non-current receivables		377	1,051	377	1,051
10. INVESTMENT IN ASSOCIATE					
Interest in associate		–	–	–	–

Details of material interest in the associated entity are as follows:

AUS-MEAT Limited became an associated entity in 1998-99 and is jointly owned (50% each) by the Company 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 budgeted contribution for the financial year ending 30 June 2006 is \$650,000 (2005 actual: \$650,000).

Result of the associated entity

	AUS-MEAT Limited	
	2006 \$000	2005 \$000
Revenue	6,716	5,885
Accumulated deficit at beginning of the year	(458)	(460)
Accumulated deficit at end of the year	(231)	(458)
Financial summary of associated entity		
Total current assets	5,570	5,141
Total non current assets	765	869
Total current liabilities	1,385	1,314
Total non current liabilities	65	38
Net assets	4,885	4,658

Investment in AUS-MEAT Limited has been taken up at nil value (2005:\$nil). AUS-MEAT Limited is limited by guarantee, the cost of the investment is nil (2005: \$nil) and there is no entitlement to share of result and net assets.

11. OTHER FINANCIAL ASSET

	Consolidated		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Interest in subsidiary	-	-	-	-

MLA Donor Company Limited is wholly owned by MLA. This company is incorporated in Australia 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.

12. PROPERTY, PLANT AND EQUIPMENT

	Notes	Consolidated		Parent	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Plant and equipment					
At cost		6,098	3,675	6,098	3,675
Accumulated depreciation		(2,706)	(2,280)	(2,706)	(2,280)
Total plant and equipment	12(a)	3,392	1,395	3,392	1,395
Furniture and fittings					
At cost		269	263	269	263
Accumulated depreciation		(205)	(189)	(205)	(189)
Total furniture and fittings	12(a)	64	74	64	74
Leasehold improvements					
At cost		3,892	3,515	3,892	3,515
Accumulated depreciation		(3,292)	(2,998)	(3,292)	(2,998)
Total leasehold improvements	12(a)	600	517	600	517
Total property, plant and equipment					
Cost		10,256	7,453	10,259	7,453
Accumulated depreciation		(6,203)	(5,467)	(6,203)	(5,467)
Total written down value		4,056	1,986	4,056	1,986

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Consolidated		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
(a) Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year.				
Plant and equipment				
Carrying amount at beginning	1,395	1,202	1,395	1,202
Additions	2,812	815	2,812	815
Disposals	(61)	(5)	(61)	(5)
Depreciation expense	(754)	(617)	(754)	(617)
	3,392	1,395	3,392	1,395
Furniture and fittings				
Carrying amount at beginning	74	80	74	80
Additions	20	25	20	25
Depreciation expense	(30)	(31)	(30)	(31)
	64	74	64	74
Leasehold improvements				
Carrying amount at beginning	517	119	517	119
Additions	377	541	377	541
Depreciation expense	(294)	(143)	(294)	(143)
	600	517	600	517
13. TRADE AND OTHER PAYABLES (CURRENT)				
Accrued R&D expenditure (a)	9,389	16,670	9,389	16,670
Other creditors and accruals (b)	4,213	4,424	4,213	4,424
Goods and services tax	–	514	–	514
Commonwealth funds payable to state governments (c)	7,533	–	7,533	–
Rent-free period (d)	188	188	188	188
Annual leave	2,325	2,070	2,325	2,070
Other employee entitlements	300	227	300	227
Total current trade and other payables	23,948	24,093	23,948	24,093

(a) Accrued R&D expenditure are non-interest bearing and are normally settled on 30-day terms after milestones are satisfactorily completed.

(b) Other creditors and accruals include balances that are denominated in foreign currency and these balances have been separately disclosed in note 20. Other creditors and accruals are non-interest bearing and are normally settled on 30-day terms.

13. TRADE AND OTHER PAYABLES (CURRENT) *(continued)*

- (c) The Company entered into arrangements with the Commonwealth Government to receive grants in relation to the National Livestock Identification System (NLIS). The funds are to be distributed to state governments as directed by the NLIS Review Committee and the Minister, based on approved business plans. The first and second instalments of \$7.9 million were received from the Commonwealth during the year with a payment of \$471,000 paid to the states. The whole amount is classified as current as the Company is required to distribute the funds as directed by the NLIS Review Committee and the Minister and this direction may occur at any time. This amount is interest bearing.
- (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.

14. PROVISIONS (CURRENT)

	Consolidated		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Long service leave	1,152	791	1,152	791
Other employee entitlements	174	153	174	153
Other provisions	50	50	50	50
Total current provisions	1,376	994	1,376	994

Movements:

	Long service leave \$000	Other employee entitlements \$000	Other provisions \$000	Total \$000
Consolidated and parent				
Carrying amount at the beginning of the financial year	791	153	50	994
Additional provisions	169	105	-	274
Paid/written back	-	(172)	-	(172)
Amounts transferred from non-current during the year	192	88	-	280
Carrying amount at the end of the financial year	1,152	174	50	1,376

15. OTHER LIABILITIES (CURRENT)

	Consolidated		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Unearned income	1,093	1,712	1,093	1,712
Other	318	377	318	377
Total current other liabilities	1,411	2,089	1,411	2,089

16. TRADE AND OTHER PAYABLES (NON-CURRENT)

Rent-free period	190	378	190	378
Total non-current trade and other payables	190	378	190	378

17. PROVISIONS (NON-CURRENT)

Long service leave	725	731	725	731
Other employee entitlements	104	137	104	137
Total non-current provisions	829	868	829	868

Movements:

	Long service leave \$000	Other employee entitlements \$000	Total \$000
Consolidated and parent			
Carrying amount at the beginning of the financial year	731	137	868
Additional provisions	186	55	241
Amounts transferred to current during the year	(192)	(88)	(280)
Carrying amount at the end of the financial year	725	104	829

18. RETAINED SURPLUS

	Consolidated		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Retained surplus at the beginning of the financial year	33,897	33,354	33,897	33,354
Net (deficit)/surplus	(4,028)	543	(4,028)	543
Retained surplus at the end of the financial year	29,869	33,897	29,869	33,897

19. RESERVES

At 1 July 2005	-	-	-	-
Net gain on cash flow hedge	97	-	97	-
Total reserves	97	-	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. MLA does take out option contracts and forward foreign exchange contracts to minimise the short-term impact of currency fluctuations on overseas programs (refer note 29).

Current assets:

- United States dollars	654	378	654	378
- Japanese yen	563	722	563	722
- Korean won	1,292	893	1,292	893
- Bahrain dinars	74	90	74	90
- Euro	13	24	13	24
- Chinese renminbi	64	9	64	9
	2,660	2,116	2,660	2,116

Current liabilities:

- United States dollars	139	37	139	37
- Japanese yen	617	1,156	617	1,156
- Korean won	423	530	423	530
- Bahrain dinars	71	258	71	258
- Euro	11	92	11	92
	1,261	2,073	1,261	2,073

21. EMPLOYEE ENTITLEMENTS

	Consolidated		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
The aggregate employee benefit liability is comprised of:				
Accrued wages, salaries and on-costs	–	244	–	244
Provisions – current (refer note 14)	1,326	944	1,326	944
Provisions – non current (refer note 17)	829	868	829	868
Payables – current (refer note 13)	2,625	2,297	2,625	2,297
	4,780	4,353	4,780	4,353
The number of full-time equivalent employees as at 30 June (a)	253.6	234	253.6	234

(a) The increase in the number of full-time employees was mainly due to a reduction in vacancy rate, additional staff required to handle the increased transactions and demand of the National Livestock Identification System database and an increase in on-farm and off-farm research and development staff.

22. SEGMENT INFORMATION

Business segment

MLA is involved in marketing and research and development, and operates in the meat and livestock industry.

Geographic segments

MLA's geographical segments are determined based on the location of the Company's assets.

\$000	Australia	China	Europe	Korea	Japan	Bahrain	United States of America	Total
2006								
Segment revenue	154,526	15	1	8	1	(3)	12	154,560
Segment assets	63,791	55	22	1,479	647	131	626	66,751
Acquisition of property, plant and equipment	2,921	8	–	122	73	16	70	3,210
Segment liabilities	26,464	–	11	424	617	98	140	27,754
Segment result	24,082	(603)	(824)	(6,261)	(13,231)	(1,767)	(5,424)	(4,028)
2005								
Segment revenue	139,964	73	71	33	5	48	–	140,194
Segment assets	69,021	25	43	1,017	686	161	397	71,350
Acquisition of property, plant and equipment	1,244	8	1	30	54	35	9	1,381
Segment liabilities	26,306	24	94	532	1,161	266	39	28,422
Segment result	25,963	(469)	(885)	(5,999)	(10,162)	(2,313)	(5,592)	543

23. REMUNERATION OF AUDITORS

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
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	98,000	96,000	93,000	91,000
– other services in relation to the entity and any other entity in the consolidated entity:				
• tax compliance	10,359	10,200	10,359	10,200
• other assurance and advisory related	11,500	55,000	11,500	55,000
• special audits	64,800	7,150	64,800	7,150
	184,659	168,350	179,659	163,350

24. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of key management personnel

(i) Directors

Arthur Macedon Heatley – chairman	(appointed 16 November 2005)
David William Palmer – managing director	(appointed 20 February 2006)
Peter Roderick Boyden	(appointed 16 November 2005)
David Charles Crombie	(retired 16 November 2005)
Diana Gwendoline Day	
Vicki Coryn Hardwick	(retired 16 November 2005)
Christopher Burgoyne Hudson	
Wayne Robert Jackson	
Peter Robert Milliken	
John (Jay) Field Simms	(appointed 16 November 2005)
Mark Edward Spurr	(resigned 17 February 2006)
Peter James Trefort	
Paul Anthony Troja	
Ian Douglas Stuart Watson	

(ii) Executives

Christine Raward	General manager – Client and Innovation Services
Reuben Rose	General manager – Livestock Production Innovation
David Thomason	General manager – Marketing
Scott Hansen	General manager – Industry Affairs and Communication
Ole Elsaesser	General manager – Corporate Services (resigned 21 July 2006)
Peter Barnard	General manager – Economic Planning and Market Services
Hugh Amoyal	General manager – International Marketing
Allan Bloxsom	General manager – Industry Systems
Mike Hayward	General manager – Livestock Exports

24. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)**(a) Details of key management personnel** (continued)*(iii) Compensation of key management personnel by categories*

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
Directors				
Short-term benefits	970,268	955,017	970,268	955,017
Post-employment benefits	56,731	52,762	56,731	52,762
Other long-term benefits	12,475	–	12,475	–
(a)	1,039,474	1,007,779	1,039,474	1,007,779
Executives (b)				
Short-term benefits	2,270,827	2,155,191	2,270,827	2,155,191
Post-employment benefits	114,178	105,590	114,178	105,590
Other long-term benefits	114,564	197,122	114,564	197,122
(a)	2,499,569	2,457,903	2,499,569	2,457,903

(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, other employees' provisions.

(b) At MLA, all executive officers are general managers. Managing director is included in directors.

(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:

- Mr Spurr was a director of AUS-MEAT Limited. The company has paid \$2,479,301 (2005: \$1,236,224) to AUS-MEAT Limited. This is composed of funding for the AUS-MEAT Limited standards function of \$640,000 (2005: \$650,000) and payment of \$1,829,301 (2005: \$586,224) for various services performed by AUS-MEAT Limited.

AUS-MEAT Limited has paid \$24,000 (2005: \$24,000) to the Company for service rendered by Mr Spurr and Mr Bloxsom (General Manager Industry Systems) as directors of AUS-MEAT Limited. AUS-MEAT Limited also paid \$3,000 in 2005 to the Company as sponsorship for Meat Profit Days.

- Professor Hudson is a director of Food Science Australia. The Company has paid \$2,328,215 (2005: \$1,699,981) to Food Science Australia to carry out R&D projects. Food Science Australia also paid \$5,422 (2005: \$13,038) to the Company for reimbursement of patent cost.

Professor Hudson is a visiting professor of the University of Queensland and the University of Wollongong. The Company has paid \$592,638 (2005: \$736,073) to the University of Queensland and \$96,646 in 2005 to the University of Wollongong to carry out R&D projects.

Professor Hudson is chair of the Australian Food Safety Centre of Excellence. The Company has indirectly paid \$40,000 (2005: \$40,000) to the Centre as annual core membership fee.

- Mrs Hardwick is a director of National Meat Industry Training Advisory Council Limited (MINTRAC) and Hardwick Meat Works Pty Ltd. The company has paid \$1,789,203 (2005: \$1,584,854) to MINTRAC for the development of training courses and scholarships for the processing sector. MINTRAC has also paid the company \$3,134 in 2005 for providing technical advice and reimbursement of expenses.

24. DIRECTOR AND EXECUTIVE DISCLOSURES *(continued)***(b) Related party transactions** *(continued)*

- Dr Day is an Associate Professor of the University of Sydney and an Adjunct Professor of the Southern Cross University. The Company has paid \$2,157,433 (2005: \$1,742,039) to the University of Sydney for scholarships and to carry out R&D projects. University of Sydney also paid \$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 \$187 (2005: \$4,086) for industry material. The Company also paid Itoham \$600 (2005: \$2,500) for reimbursement of expenses.

Rockdale Beef has paid the Company \$164,812 (2005: \$251,425) as contributions towards R&D partnership projects, MSA licence fee, grading services and NLRS subscriptions. The Company also paid Rockdale Beef \$47,495 (2005: \$28,377) to carry out R&D partnership projects and reimbursement of expenses.

- Mr Trefort is a director of WA Q Lamb Inc. The Company has paid \$1,950 in 2005 to WA Q Lamb Inc. for contributions towards promotional activities for WA Q Lamb Inc.

(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. This company was incorporated in Australia on 6 August 1998.

- MLA Donor Company Limited has paid \$6,648,000 (2005: \$7,029,000) to the Company which related to R&D partnership income and management fees.

25. NOTES TO THE STATEMENT OF CASH FLOWS**(a) Reconciliation of cash**

	Consolidated		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Cash on hand	2,785	3,827	2,764	3,827
NLIS Commonwealth funds held for state governments	7,533	–	7,533	–
Short term money market deposits	22,146	35,001	22,146	35,001
Closing cash balance	32,464	38,828	32,443	38,828

(b) Reconciliation of net cash (used in)/provided by operating activities to net (deficit)/surplus

Net (deficit)/surplus	(4,028)	543	(4,028)	543
Adjustments for:				
Net gain on disposal of property, plant and equipment	(42)	(25)	(42)	(25)
Depreciation expense	1,078	791	1,078	791
Net foreign exchange (gain)/loss on cash	(61)	102	(61)	102
Interest received	(2,171)	(2,164)	(2,150)	(2,131)
Change in assets and liabilities:				
(Increase)/decrease in assets:				
– Decrease in trade and other receivables	1,351	1,469	1,330	1,469
– (Increase)/decrease in prepayments and deposits	(937)	55	(937)	55
Increase/(decrease) in liabilities:				
– (Decrease)/increase in trade and other payable	(7,834)	3,227	(7,834)	3,227
– (Decrease)/increase in other liabilities	(678)	131	(678)	131
– Increase/(decrease) in provisions	344	(292)	344	(292)
Net cash (used in)/provided by operating activities	(12,978)	3,837	(12,978)	3,870

26. EXPENDITURE COMMITMENTS

	Consolidated		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Research and development expenditure contracted for is payable as follows:				
– Not later than one year	43,609	35,900	43,609	35,900
– Later than one year but not later than five years	26,789	23,482	26,789	23,482
– Later than five years	300	–	300	–
Aggregate R&D expenditure contracted for at balance date	70,698	59,382	70,698	59,382
Operating lease expenditure contracted for is payable as follows:				
– Not later than one year	2,670	2,630	2,670	2,630
– Later than one year but not later than five years	2,613	3,283	2,613	3,283
Aggregate lease expenditure contracted for at balance date (a)	5,283	5,913	5,283	5,913

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

27. 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 2006, the number of members was 39,086 (2005: 33,391).

28. CONTRIBUTED EQUITY

	Consolidated		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Capital contribution	9,031	9,031	9,031	9,031

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.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company'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. The Company 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. The risk is not of significance.

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. Option premiums paid (2006: \$135,000; 2005: \$528,000) have been deferred on the balance sheet as at 30 June 2006. 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.

30. FINANCIAL INSTRUMENTS

Hedging activities

Cash flow hedges

At 30 June 2006, MLA held forward exchange contracts and options contracts designated as hedges of forecasted future expenditure for the overseas offices. The following tables summarises 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.

a) Foreign exchange – forward contracts

	Average exchange rate		Buy amount	
	2006	2005	2006 \$000	2005 \$000
United States dollars				
Maturing in:				
3 months or less	0.7392	–	1,146	–
Over 3 to 12 months	0.7464	–	3,881	–
			5,027	–
Japanese yen				
Maturing in:				
3 months or less	84.84	–	754	–
Over 3 to 12 months	83.48	–	241	–
			995	–
Korean won				
Maturing in:				
3 months or less	712.34	–	1,562	–
Over 3 to 12 months	704.17	–	1,940	–
			3,502	–

(b) Foreign exchange – option contracts

	Average strike rate		Buy amount	
	2006	2005	2006 \$000	2005 \$000
United States dollars				
Expiring in:				
3 months or less	0.6850	0.6417	645	1,934
Over 3 to 12 months	–	0.6941	–	5,725
			645	7,659
Japanese yen				
Expiring in:				
3 months or less	76.00	70.83	713	2,140
Over 3 to 12 months	–	73.38	–	7,415
			713	9,555

(b) Foreign exchange – option contracts *(continued)*

	Average strike rate		Buy amount	
	2006	2005	2006 \$000	2005 \$000
Korean won				
Maturing in:				
3 months or less	–	734.57	–	1,107
Over 3 to 12 months	–	711.42	–	3,224
			–	4,331

(c) Foreign exchange – collar options

	Average strike rate				Buy amount	
	2006		2005		2006 \$000	2005 \$000
	Floor	Ceiling	Floor	Ceiling		
Japanese Yen						
Expiring in:						
3 months or less	83.00	88.91	–	–	1,156	–
Over 3 to 12 months	83.10	87.23	–	–	1,609	–
					2,765	–

Interest rate risk

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

	Floating interest rate \$000	Fixed interest rate maturing in 1 year or less \$000	Effective interest rate	
			Floating %	Fixed %
2006				
Financial assets				
Cash assets	8,882	–	5.50	–
US dollars deposit	546	–	0.00	–
Yen deposit	447	–	0.00	–
On call deposit	371	–	5.65	–
Term deposit	–	–	–	–
Bills of exchange	–	21,775	–	5.82
2005				
Financial assets				
Cash assets	2,451	–	5.00	–
US dollars deposit	255	–	0.00	–
Yen deposit	586	–	0.00	–
On call deposit	343	–	5.65	–
Term deposit	–	38	–	2.25
Bills of exchange	–	34,620	–	5.64

30. FINANCIAL INSTRUMENTS *(continued)***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 2006		Consolidated 2005	
	Carrying amount \$000	Net fair value \$000	Carrying amount \$000	Net fair value \$000
Financial assets				
Bank bills (a)	21,775	21,975	34,620	34,848

(a) The net fair value of bank bills is calculated to include the interest accrued as at 30 June 2006.

31. 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 (2005: \$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 (2005: \$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.

32. TRANSITION TO AIFRS

For all periods up to and including the year ended 30 June 2005, the economic entity prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the economic entity is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the economic entity has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements, the economic entity has started from an opening balance sheet as at 1 July 2004, the economic entity's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1: *First-time adoption of AIFRS*.

This note explains the principal adjustments made by the economic entity in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

Exemptions applied

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively.

The economic entity has taken the following exemptions:

- Comparative information for financial instruments is prepared in accordance with AGAAP and the economic entity has adopted AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139: *Financial Instruments: Recognition and Measurement* from 1 July 2005.

Explanation of material adjustments to the balance sheet, income statement and statement of cash flow

There are no material differences between the balance sheet, income statement and statement of cash flow presented under AIFRS and under the previous AGAAP.

Directors' declaration

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

In the opinion of the directors:

- (a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- (b) 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
14 September 2006

Independent audit report

to members of Meat & Livestock Australia Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flows statement, accompanying notes to the financial statements, and the directors' declaration for Meat & Livestock Australia Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entity it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

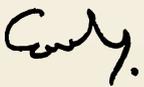
Independence

We are independent of the company and the consolidated entity, and have met the independence requirements of Australian professional ethical pronouncements and 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.

Audit opinion

In our opinion, 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 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



Brian R Blood
Partner

Sydney
14 September 2006

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

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
Banki Haddock Fiora

Bankers
Commonwealth Bank
of Australia

Meat & Livestock Australia Limited
ABN 39 081 678 364

Registered address:
Level 1
165 Walker Street
NORTH SYDNEY NSW 2060

Postal address:
Locked Bag 991
NORTH SYDNEY NSW 2059

Phone 02 9463 9333
Fax 02 9463 9393
Website www.mla.com.au



www.mla.com.au