



MLA annual report

2003-2004

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

MLA was formed in 1998 following the merging of the statutory corporations Australian Meat & Live-stock Corporation and Meat Research Corporation.

Our mission

Our mission is for world leadership for the Australian red meat and livestock industry.

We work to achieve our mission by:

- building demand
- increasing market access
- developing competitive advantage from 'paddock to plate'

Our values

The values that support our work are to:

- act collaboratively with our stakeholders
- seek excellence in all we do
- act with urgency
- deliver value cost-effectively
- work as a team

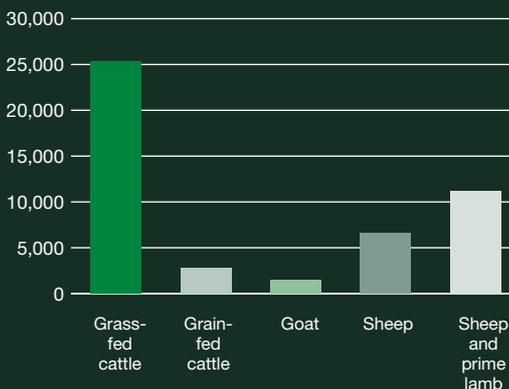
MLA membership

Cattle, sheep and goat producers who pay livestock transaction levies can become MLA members. At 30 June 2004, MLA had 30,011 members.

Members by location



Members by activity



Members may be involved in more than one activity.

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Highlights 2003-04

Building demand

- Market value of red meat increased by 5.8% this year to reach \$8.06bn and \$4.58bn for domestic and international markets, respectively.
- The number of Australian mums restricting red meat meals due to health concerns is down to 24% this year from a high of 57% in 2001.
- The number of dieticians actively recommending red meat three to four times a week increased by 10% to reach 72%.
- Top 25 processors are using 28% more red meat in their value adding processing this year compared to quantities used in 2000.
- The number of carcasses graded by Meat Standards Australia increased by 42%.

Increase market access

- MLA worked with industry and government to negotiate the Australia/US and Thailand free trade agreements with an estimated potential cumulative benefit to industry of up to \$1.7bn and \$780m, respectively.
- We also worked with industry and government to remove the offal ban in Saudi Arabia, representing a further benefit of up to \$10m per annum.
- Market access and public health issues have been addressed this year by our world leading predictive microbiology.
- We opened an office in Beijing to position industry to capture the emerging China market.
- Nearly 80,000 red meat producers provisionally registered with the Livestock Production Assurance on-farm food safety program.
- Over 6,000 producers attended 48 workshops on National Livestock Identification System around Australia.

Competitive advantage from paddock to plate

- Visits to our online market news increased 89%.
- MLA and EAN Australia developed a world leading e-business platform to help the Australian meat industry lower costs and improve processing efficiency – it will be trialled for global application.
- Two major supermarket chains adopted new technology to improve eating quality and processing efficiencies – an estimated \$300m per annum boost for industry by 2007.
- Up to 90% of EDGENetwork attendees have changed management practices after attending courses, with productivity increases of around 5% (short-term) to 12% (long-term).
- Finalised the Grain & Graze program, a new collaborative R&D program to improve management skills, practical skills and profitability by 10%, and protect natural resources in eight regions across five states.
- MLA's Prime Time campaign encouraged over 5,000 producers to change management techniques to increase prime lamb production.
- A new gene marker was released for beef tenderness, taking Australian industry closer to the 'perfect steak'.

How we work

Working in consultation with industry, MLA develops and delivers research and development (R&D), marketing and market access programs to service the red meat and livestock industry.

Our projects are aligned with the government's national and rural research priorities to create an innovative, sustainable industry that delivers benefits to the whole community.

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.

Where we are located

MLA's staff is based strategically to leverage the best possible access to both stakeholders and markets.



What we do

Build demand

Both domestically and internationally we promote the high quality of Australian red meat, its versatility and enjoyment, and value for money, with a particular focus on the important nutritional role red meat has in a healthy diet. Promotional activities are undertaken directly with retail consumers as well as foodservice outlets such as hotels and restaurant chains.

MLA works to develop brand recognition in our export markets for Australian red meat and livestock and to position our products as high quality, premium products offering enhanced consumer enjoyment.

Market access

Australia is the world's largest exporter of red meat and livestock, exporting to more than 100 countries. Exports represent 60% of the industry's trade, making it critical to protect and expand our access.

Australia's 'clean, green' image and our reputation as a supplier of safe, quality red meat underpins MLA's export marketing activities.

Develop competitive advantage

MLA conducts R&D throughout the supply chain to develop competitive advantages for the industry. On-farm R&D projects include grazing management, animal health and welfare, feedlot management, meat quality, animal genetics for improved efficiency, strategic science and environmental management.

Off-farm R&D activity includes environmental management, eco-efficiency, product development, health and safety, education and training, technology development and commercialisation, food safety and microbiological research, and co-product innovations such as new blood fractions and rendering process technologies.

Market intelligence

MLA compiles, analyses and publishes statistical information and market intelligence. We form links between overseas markets and the local industry and provide expert advice on industry issues.

MLA plays a major role in educating and updating producers, processors, consumers and students about industry developments. We also liaise with industry, peak councils and government.

Market overview

Cattle prices

The ongoing drought continued to suppress beef farm incomes, through lower cattle turn-off and additional spending on feed and replacement stock. Beef profits improved modestly in 2003-04, particularly for medium and large properties¹. Cattle prices rose substantially, particularly following the US BSE case in December 2003. The Eastern Young Cattle Indicator jumped 20% to 327¢/kg cwt, near the record of 333¢/kg set in 2001-02. Record sales to Japan and Korea (due to the absence of US product), together with strong US and Australian demand and some improvement in seasonal conditions and grain supplies, drove the price increase.

Beef exports

The value of beef exports remained stable at \$3.9bn, despite the sharp rise in the A\$. Export volumes fell 5% to 860,000 tonnes due to the higher A\$, lower production and a sharp fall in Canadian import demand following the BSE case. Exports rose to our top two markets, the US and Japan, lifting their share of the total from 70% to over 80%. Beef exports to the US rose 3% to 361,000 tonnes, though value fell due to the impact of the A\$. Shipments also fell significantly to Korea, due to economic difficulties, and to South-East Asia.

Beef exports to Japan

Japanese demand for Australian beef jumped sharply following the suspension of US beef imports in late December 2003, lifting 2003-04 exports by 19% in volume, to a near record 331,000 tonnes. Japan retained the position as Australia's largest market by value, with value lifting 24% to a record \$1.74bn, 45% of the total export returns from beef.

Expenditure on red meat

Estimated domestic expenditure on red meat jumped a further \$647m in 2003-04, to reach \$8.1bn. In spite of record retail prices, consumption of both beef and lamb increased during the year. Growing recognition of the importance of red meat in a healthy diet, significant improvements in quality of both beef and lamb in recent years, and strong promotion has driven this growth.

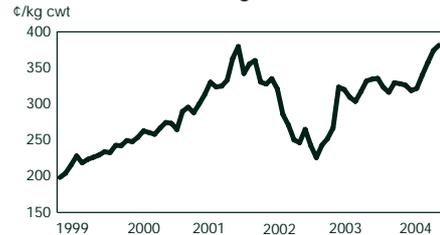
Lamb and sheep prices

Despite lower lamb numbers and higher expenditures associated with the drought, average incomes to specialist lamb producers are estimated to have jumped a further 15% in 2003-04¹ on the record level of the previous year. The reason was the buoyant lamb and sheep prices, with national average trade lamb prices exceeding the record of the previous year by a further 8%, to 387¢/kg cwt, and ewes also posting a record of 197¢/kg cwt, up 20%.

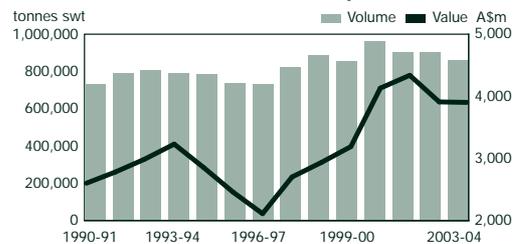
Lamb exports

The value of lamb exports was a record in 2003-04, lifting 13% to \$627m, and volumes rose 15% to 112,000 tonnes also a record. The US remained our largest market taking 30% of exports by volume and 42% by value. Export volumes to the US rose 18% to a record 33,000 tonnes, and value lifted 20% to a record \$263m. Export demand for Australian lamb also strengthened sharply to the European Union (volumes up 23% to 14,700 tonnes), Japan (up 41% to 7,100 tonnes) and China (up 62% to 8,900 tonnes).

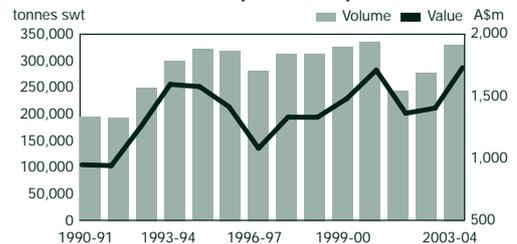
Eastern Young Cattle Indicator



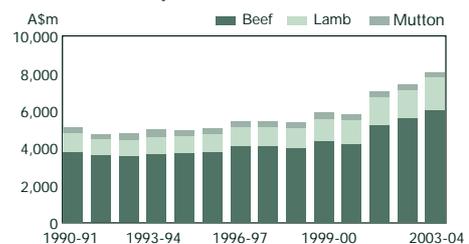
Australian beef exports



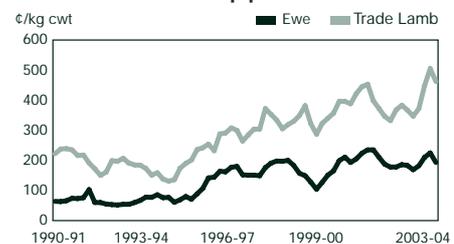
Beef exports to Japan



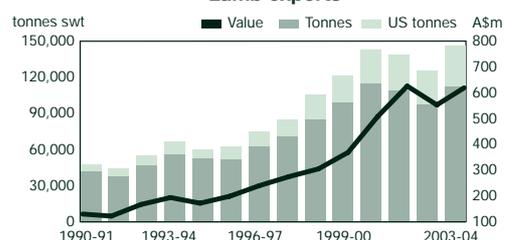
Expenditure on red meat



Sheep prices



Lamb exports



¹ Source: Australian Bureau of Agricultural and Resource Economics (ABARE)

Benefits of our work

For producers

- We investigate and provide science-based and management solutions to help improve the productivity and sustainability of farming enterprises.
- We promote red meat products and shore up international markets to maintain and increase demand.
- We collect and disseminate market information that supports business decisions.

For processors

- We investigate and provide science-based and management solutions 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.

For live exports

- We work with the industry here and in our overseas markets to improve animal welfare and maintain and grow markets.

For the environment

- We work with government agencies, researcher organisations, producers and processors to provide science-based solutions to reduce adverse impact on the environment.

For consumers

- We undertake science-based research and provide information on the health and nutritional value of red meat in the diet.
- We develop innovative red meat meal solutions and packaging to meet changing consumer trends.
- We conduct science-based research and provide information and support management practices to promote food safety through the whole supply chain.

For the community

- We invest in the development of world class scientists and researchers to build Australia's research and development human capabilities.
- We have fostered growth in the value of Australian red meat to see expenditure, both in Australia and overseas, reach a record value of \$12.6bn.
- We support Australia's red meat export industry as the largest exporter of red meat in the world.
- We support and advise government in trade negotiations, and undertake research to provide economic rationale used in negotiations to improve market access.

Financial analysis and discussion

Revenue

Total revenue for 2003-04 was \$136.5m (2002-03 \$123.6m), representing an increase of 10%.

The largest increase came from R&D matching grants from the Federal Government, which were higher as a result of increased R&D expenditure. The main revenue stream of levy income was marginally higher with the recognition of the Cormo Express levy income.

Expenditure

Total expenditure for 2003-04 was \$130.5m (2002-03 \$117.1m), representing an increase of 11%. The main increase was in R&D expenditure, especially in the Strategic R&D and R&D Partnerships programs.

	2003-04 \$000	2002-03 \$000
Revenues from ordinary activities	136,519	123,578
Expenditure		
Building demand	42,700	47,999
Guaranteeing integrity	15,826	13,039
Providing infrastructure	10,229	10,426
Developing supply	31,617	25,472
R&D partnerships	15,781	7,128
Corporate services	7,272	7,560
Strategic R&D	6,128	4,454
Other	900	1,016
Total expenditure	130,453	117,094
Net surplus from ordinary activities	6,066	6,484

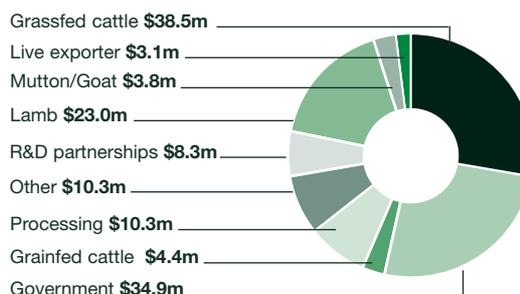
Retained surplus

The excess of revenue over expenditure during the year resulted in a surplus of \$6.1m (2002-03 surplus \$6.5m). Retained surplus at 30 June 2004 was \$33.4m (30 June 2003 \$27.3m). This surplus is broken down by species as follows:

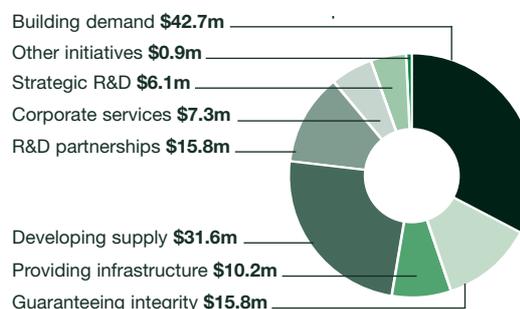
Grassfed cattle	\$8.4m
Grainfed cattle	\$2.9m
Lambs	\$19.5m
Sheep	\$1.7m
Goats	\$0.9m

More detailed information can be found in the Financial Report on page 51.

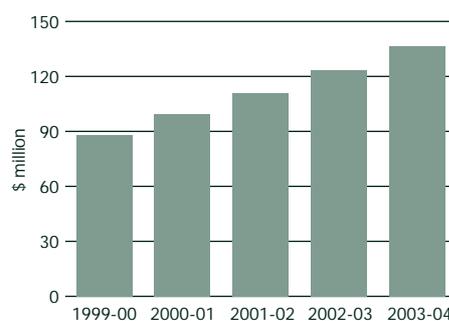
Revenue 2003-04



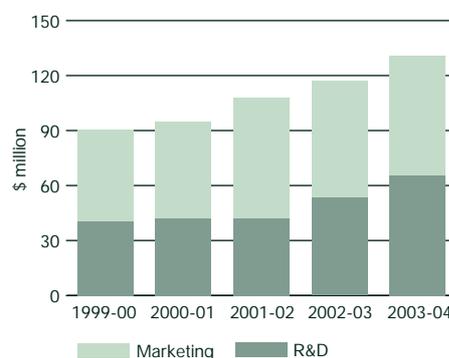
Expenditure 2003-04



Revenue over five years



Expenditure over five years



Chairman's report

The past twelve months have been a challenging time for the Australian beef, sheepmeat and goatmeat industries. However I can confidently report that the red meat industry and its service company, MLA, are strong and are well positioned to take advantage of significant opportunities going forward.

Current position

Following two decades of export growth in the 1980s and 90s the first few years of the new millennium have been difficult. BSE in Europe and Japan have impacted on consumer confidence, and detections in Canada and the US have created turmoil in the Pacific Rim trading environment.

In addition, global and Asian travel has been affected by international terrorism and SARS, wildly fluctuating currencies have weighed heavily on our trading competitiveness and record drought at home has reduced our supply capacity and increased our costs.



David Crombie
Chairman

At the same time, in our domestic markets and indeed in most of our export markets, consumers are changing and becoming more demanding in terms of safety, quality, health and general product integrity.

Within this climate of uncertainty the Australian industry has performed strongly at home and has gained new market opportunities in North Asia and in the US.

The strength in domestic demand coupled with strong export performance has seen a 6% increase in the value of the Australian red meat industry in the past year, an outstanding achievement in a difficult trading environment.

The future

Looking forward world demand for beef and sheepmeat is positive.

European consumption has recovered and their beef stockpiles are gone. It is possible their beef and lamb production will fall following the proposed decoupling of farm subsidies although the recent eastern expansion may complicate this. An option for filling any resultant supply gap could be to increase imports which may create opportunities for Australian lamb and beef.

The decline in beef demand in Japan and Korea and the absence of US and Canadian imports has radically altered Pacific Rim trade flows. This has created new opportunities for Australia and we are currently shipping record volumes at record export values to beef and lamb customers in Japan.

The challenge will be to maintain our new market position in North Asia in the face of renewed competition with the return of the US and the emergence of new competitors such as South America.

US domestic beef demand is up 6% largely as a result of the swing to high protein diets. US production is at full stretch, with ranchers moving into the next herd rebuilding phase and the BSE-induced bans limiting supply from Canada. Australia shipped record lamb tonnages at record export values in 2003-04, and our 90CL grinding beef is in high demand in the US. The chilled beef market has been a major growth segment and the US is still our second largest market for chilled beef exports behind Japan, and it is growing.

Moving to South-East Asia, demand for Australian beef and live exports is highly price sensitive and sales will continue to be impacted by a stronger Australian dollar plus intense competition from Indian buffalo and South American beef.

Demand in the international marketplace can only be translated into sales if we have fair access to those markets. While MLA supports free trade agreements with particular trading partners, the major long-term reforms must be within the World Trade Organization.

MLA continues to support Australia's leadership role in the Cairns Group. Our primary objective is the removal of tariffs and quotas to increase access and provide a wider choice of markets. We are also seeking the removal of subsidies and we support the decoupling of commodity payments in the EU.

There has been a continuing upward shift in demand in the domestic market with both volumes and retail prices up for both beef and lamb. This shift in demand has been as a result of a positive change in consumer attitudes towards red meat as part of a healthy balanced diet. This is expected to continue as consumers select from a range of new and contemporary meal offerings that are backed by product guarantees on safety, quality and production integrity.

Consumer perceptions

Australia's safety record in red meat production is excellent and our systems are highly regarded around the world.

Recognition of our product quality is illustrated by Australia's ability to capture market share at the high end of the Japanese and Korean markets, as well as table beef in the US. In Japan consumers recognise the 'Aussie Beef' symbol ahead of all other imported brands as representing safe, fresh and natural product.

Consumers at home are becoming more health conscious and this will continue with our ageing population and with emerging community concerns about obesity.

The MLA health and nutrition program targets community health issues and is now well established. Its science base ensures that our claims about the health benefits of red meat as part of a balanced diet are sound, and the message is disseminated through promotional materials and campaigns such as the award winning 'Red Meat. Feel Good' campaign.

Scientists, doctors and health professionals are supporting the message and so too are our meal providers. Three years ago 57% of mums were limiting their family's intake of red meat, this has now dropped to 24%.

Maintaining a market edge

MLA's research activities are vital in ensuring that our production systems remain cutting edge and that our new products are competitively positioned.

To assist with this, we are continuing to give priority to our applied research into production systems, environmental management and animal welfare. In the area of basic research, the priorities include genetics and functional genomics, tools to improve production performance and consistency.

MLA is approaching environmental management through profitable on-farm solutions and through cooperation with related organisations and agencies within the framework of the Federal Government's rural research priorities. Programs such as Grain & Graze, are profitable tools for producers. At the same time they are generating positive environmental outcomes and are contributing to an increased public awareness of the commitment of pastoral Australia to sustainable natural resource management.

Research in the processing sector continues to add value while also improving processing efficiency and environmental management. New product research also continues into expanding our point-of-sale and product positioning, as well as developing value added products, packaging technologies and meal solutions that reflect changing consumer preferences.

The challenge

The US will be back in Asia seeking to regain lost markets. The return of a major competitor to a Japanese marketplace that has shrunk by 15% in the past twelve months will provide a major challenge in our most valuable beef market.

Brazil is also coming. With a cattle herd of about 170 million (compared to our 27 million) and improving productivity, Brazilian producers have competitively priced product and are already major exporters. They are ambitious to grow their exports into the high value markets of the Pacific Rim.

China is a threat with their productive capacity for beef and sheepmeat. China is also a major market opportunity due to their rapid economic expansion. The new MLA office in Beijing will play an important role in our future strategy for this market.

Other threats include competing proteins such as chicken, farmed fish and pork all of which will enjoy a competitive price advantage over beef and sheepmeat.

Within the red meat sector we need to create a point of difference for our products based on our clean and natural production systems with guarantees on safety and integrity backed up by through chain accountability and traceback systems.

While we must remain cost competitive we do not want to be competing on price alone against bulk commodities with a lower cost base. Our future is in differentiating our product offerings. Now is the time to strengthen our systems to achieve this point of difference.

MLA's role is unambiguous. We will seek to anticipate and influence the market environment to create opportunities for our meat and livestock producers. At the same time we will continue to develop tools to improve their sustainability and profit outcomes.

MLA has worked in partnership with industry and government to capture benefits from the opportunities that have arisen as a result of the turbulence of the past year. We will continue to address these and emerging issues for the long-term benefit of the industry and the nation.



David Crombie
Chairman

Managing director's report

Over the past 12 months, constant and unprecedented change has continued to confront our industry at the domestic and global level.

Australian production has been affected by the continuing drought and this has had a profound effect not only on our industry, but also on the communities supporting the industry.

The global meat trade suffered enormous disruptions following the December announcement of a case of BSE in the US, which came on the heels of an incident in Canada in May 2003.

The live export trade also came under intense scrutiny after rejection of the Cormo Express from a Saudi Arabian port in September. Ongoing improvements in live exports were overshadowed by adverse media coverage, which continued following sabotage by animal activists of a shipment being consolidated in Portland.



Mark Spurr
Managing director

Despite these challenges, the industry remains resilient and the year had its bright side, with record prices for lambs and strong domestic and international demand. The value of red meat, the driver of the industry's wealth, reached \$12.6bn – an increase of \$690m, up 6% on last year.

An integral part of the industry's ability to respond and achieve positive results through such turbulent times has been the programs of Meat & Livestock Australia.

MLA revenue for the year increased by 10%, enabling the company to invest \$130.5m on marketing and R&D programs. At the same time we were successful in increasing all important reserves by producing a surplus of \$6.1m.

Building demand

Domestic marketing

The health of the red meat industry is intrinsically linked to demand. Our challenge is to satisfy the demands of increasingly sophisticated consumers looking for meals that provide nutrition and convenience.

Again this year the very successful 'Red Meat. Feel Good' advertising campaign continued to promote the health values of red meat.

Science-based evidence of the nutritional value of red meat is central to winning the confidence of consumers and, in particular, health professionals. To this end we continued our program of nutritional research, resulting in 72% of dieticians now actively recommending red meat three to four times a week – up 10% on last year.

As part of this, the CSIRO 'Total Wellbeing Diet' was launched in August as an extension of the science from our nutritional R&D program. The diet, based on research funded by MLA, shows that a 'Protein-Plus, Low Fat Eating Plan' is effective in weight loss and improving other health indicators.

MLA also worked closely with the retail sector to support in-store promotion of red meat. Successful initiatives this year included the 'Raising the Standards' campaign to assist butchers make their in-store presentation more consumer-friendly.

Such programs played a role in increasing the retail value of the domestic market by a remarkable 9% to a new high of over \$8bn, despite strong competition from cheaper alternatives.

International marketing

The excellent results at home were mirrored internationally. The total value for red meat exports was \$4.6bn, an increase of 1% on 2002-03. Lower volumes due to the continuing drought offset higher prices.

In the live trade, MLA worked closely with government and industry to build on our R&D and animal welfare work. We are hopeful of establishing new markets, for example in Libya and Syria, and MLA continues to work with government and the trade to secure a sustainable re-opening of the Saudi Arabian market.

Undoubtedly, the dominant factor in the overseas meat trade this year was the BSE-induced absence of the US and Canada in the north Asian markets. This created valuable opportunities, with Australian products now enjoying 90% of import market share in Japan and 100% of import market share in several sectors in Korea. Australia's clean, green and safe image has paid real dividends.

To consolidate these gains, we restructured our management team to provide the necessary focus on international red meat marketing and live exports.

Increased market access

Industry enjoyed a number of wins this year in relation to market access.

Negotiation of the Australia/Thailand free trade agreement (FTA) delivered an estimated \$780m cumulative benefit to the year 2020 for beef and sheep producers. Tariff reductions were achieved in both the red meat and live export sectors, with all tariff barriers to be eliminated in coming years under the agreement.

The major market access issue this year was the Australia/US FTA. MLA worked closely with industry and government during the negotiations and was successful in meeting the industry's key objective of an immediate increase in access, eliminating an estimated \$23m burden on the trade.

In addition, Australia's existing beef quota will increase by 70,000 tonnes over 18 years, representing an estimated cumulative benefit of \$1.1bn to \$1.7bn to the beef industry. Following this we will have open access to the US market, but with price safeguards.

We also had success in removing the offal ban in Saudi Arabia, representing a further benefit of \$8m-\$10m.

The industry must also continue to look for new and expanded markets. This year MLA set up an office in China and we are investigating the benefits of pursuing an FTA in this market.

Product integrity

The recent overseas BSE cases have again highlighted the need to demonstrate the integrity of our products. While our marketers have leveraged our enviable reputation as clean, green and safe, MLA has also been working with government and industry to ensure there are rigorous systems in place to maintain market confidence should a serious disease outbreak occur here.

MLA's role in the National Livestock Identification System (NLIS) is to ensure producer awareness, provide a robust database and administrative support, and assist with supplier accreditation. This year, over 6,000 producers attended 48 workshops held throughout Australia.

Evolution of the industry's National Vendor Declaration led to establishment of the Livestock Production Assurance (LPA) on-farm food safety program, with nearly 80,000 red meat producers provisionally registering for information packs.

To further bolster confidence in the industry's systems, NLIS achieved ISO 9001:2000 accreditation. While Meat Standards Australia is already ISO accredited, next year we will seek accreditation for the LPA program.

Competitive advantage from paddock to plate

Fostering a world class industry

MLA has a proud record of world-leading R&D delivering benefits to industry and this year was no exception. The partnership of industry and government investment in R&D created a number of benefits.

Our Prime Time campaign promoted opportunities in lamb and sheepmeat production. Focusing on extending key outcomes from R&D projects in genetics, nutrition and reproduction management, the program influenced on-farm practice and increased the numbers of ewes being mated for lamb production.

Genetic progress in terminal sires through LAMBPLAN also led to increased carcass weight and value for prime lambs. One million animals are now entered in the LAMBPLAN database.

An innovative \$5m research project to develop new varieties of perennial ryegrass and white clover was initiated in partnership with Dairy Australia, the Geoffrey Gardiner Dairy Foundation and the Plant Biotechnology Co-operative Research Centre. By 2010, the project aims to have 10% of livestock producers in southern Australia using varieties selected for traits such as improved herbage yield, resistance to diseases such as crown rust and drought tolerance.

In the north, a study was commenced to ascertain the extent of leucaena toxicity in cattle and to develop management guidelines for inoculating cattle to prevent losses from these toxins.

Under our supply chain management program, MLA has developed an e-business platform for the Australian meat industry and the World Customs Organisation has agreed to trial it for global application. If accepted, Australia will enjoy significant advantages from being an early adopter.

Reducing our environmental impact is critical to the industry's sustainability. This year we were able to verify improvements in the environmental performance of the processing sector, with benchmarking research showing a 10% reduction in energy consumption and, more significantly, a shift in culture towards community concerns.

Research adoption

Implementation of our research findings is the key to MLA's impact on industry and where we create real benefits. One of the most effective ways of encouraging adoption is face-to-face and we do this through workshops, forums and our Meat Profit Days. Last year, we met with over 12,000 producers at events across the country.

EDGE*network* is also pivotal in on-farm adoption. Research shows that almost 90% of attendees change their management practices following these courses, with productivity improvements of around 5% in the short-term and 12% longer term.

Best practice organisation

MLA's Good to Great corporate development program (which seeks to embed a culture of continuous improvement), has entered its second year. As part of this, we continued our cost savings project and to date \$3.7m in savings have been identified.

Corporate costs were held below last year and represented only 5.3% of revenue. Continuing appreciation of the Australian dollar resulted in a \$2.24m foreign exchange loss.

VIAscan, which reverted to MLA's ownership, was successfully sold during the year. The technology was originally developed through our R&D investment and was a mature project. It was purchased by a company with strong links to the Australian processing industry, ensuring its continued commercialisation.

The good results from MLA's programs are a direct result of our professional and dedicated management team and staff, whom I would like to thank for their valued contributions over the past year.

The following pages provide more detail on the activities we undertook during 2003-04 in support of the Australian industry.



Mark Spurr
Managing director

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How we plan

MLA's planning and reporting process reflects the high level of importance we place on accountability and transparency.

Our industry programs plan is developed with industry, through workshops and taskforces, and is aligned to the meat industry strategic plan. It sets out our activities for the year ahead.

A work program summarising the plan is then published and sent to all MLA members.

A progress report is published for the June to December half. This is sent to key industry stakeholders.

Our annual report on the year's activities is published in October and sent to industry stakeholders and all MLA members.

The structure of all these documents remains consistent to make it easier to track progress and see what activities are planned to address industry imperatives.

Each document is placed on our website (www.mla.com.au) and can be viewed at any time.

Working together

Our work fits closely with government's national and rural research priorities. The Federal Government contributes matching R&D dollars towards MLA's programs. This year government funds totalled \$35.9m.

National and rural research priority	MLA program
Sustainable natural resource management	<ul style="list-style-type: none">• Plant management for dryland salinity• Grain & Graze• Sustainable grazing for saline land• Perennial pasture improvement• Environmental management systems• Off-farm efficiency
Improving trade and market access	<ul style="list-style-type: none">• Export marketing and promotion• Market access
Use of frontier technologies	<ul style="list-style-type: none">• R&D Partnerships• Strategic R&D• Co-products• Off-farm efficiency
Improving competitiveness through whole of industry approach	<ul style="list-style-type: none">• Supply chain management• Meat Standards Australia• Red meat innovation• Off-farm efficiency• Sheepmeat eating quality• Meat electronics
Maintaining and improving confidence in the integrity of Australian agriculture	<ul style="list-style-type: none">• Domestic marketing and promotion• Red meat innovation• Meat safety/issues management• Nutrition research
Protecting Australia from invasive diseases and pests	<ul style="list-style-type: none">• National arbovirus monitoring• TSE tests
Creating an innovative culture	<ul style="list-style-type: none">• EDGE<i>network</i>• Partners in innovation• Producer initiated R&D and other on-farm demonstrations• Post-graduate training

MLA supports a number of Co-operative Research Centres (CRCs).

Triple bottom line

Economic

MLA has in place policies, procedures and governance activities to ensure our fiscal responsibilities are met. We have a comprehensive system of reporting to ensure transparency and accountability including our industry programs plan, a mid-year progress report against that plan, and our annual report. These documents include our activities and related financial status to allow industry full scrutiny of their investment dollars.

Our program of work supports the strength and ongoing sustainability of the industry in a number of ways. Our R&D activities strive to find new and better ways to make industry more efficient and productive and our products more competitive. Through our marketing and market access activities we develop demand and markets for red meat products both domestically and internationally, contributing to our national economy.

As a proactive step, MLA initiated an R&D forum, held in Canberra each year, to showcase to government our R&D programs and to ensure optimum awareness of our activities.

In addition, MLA strives for efficiency in our operations. To achieve this, we have instigated an ongoing project to identify potential cost savings and efficiencies.

Social

Through our programs, MLA's work impacts on communities around Australia. The economic health of the industry supports a number of rural communities, our R&D to continuously improve the quality of red meat for consumers, and our efforts to improve conditions for industry workers through occupational health and safety programs and education are just some of the social benefits of our work. MLA provides scholarships, grants and funding for students and industry participants and our *EDGEnetwork* and training programs provide continuing education for producers and industry participants.

MLA has in place a number of policies including equal employment opportunity and occupational health and safety. We have also won the right to use the Employer of Choice for Women logo.

MLA aims to enrich the potential of its staff and, in doing so, enhance the individual's contribution not just to the company but also to the community. To do this, we offer external education assistance, staff development, the opportunity to move within the company, and our management encourages continuous improvement for all staff.

A code of conduct and an expressed list of values underpin the company's behavioural expectations. The founding attributes of our values lie in world's best practice and service to the industry.

Environmental

MLA has significant R&D programs focusing on environmental sustainability both on and off-farm. These programs support industry on-farm in areas such as natural resource management, soil and salinity issues and sustainable grazing. In the processing sector we are initiating an environmental code of practice, providing a benchmark for industry environmental performance. Tracking has shown a significant reduction in energy consumption within the sector, and a significant positive shift in attitudes towards environmental management systems.

These activities are reported on in more detail throughout this section.

Positive consumer attitudes and open export markets are central to stimulating demand and sales for red meat products both domestically and amongst our international trading partners. To support our long-term strategy for promoting red meat, MLA works with health professionals to position red meat as a source of health and vitality.

To further stimulate growth in demand, work on product development explores new and innovative ways to grow markets and add value for both consumers and industry.

1

Building demand for our products



Building demand for our products

Domestic promotion

Objectives

- Consumers and health opinion leaders regard red meat as an important source of valuable nutrients.
- Hold lamb market share against further price rises.
- Red meat regarded as a high priority with key retailers and foodservice operators.

Outcomes

- Consumer and health attitudes to red meat have strengthened.
- A strong promotional campaign underpinned an increase in expenditure and demand.
- Extensive work in the retail sector supports Australia's claim to some of the best retail butcher outlets in the world.

Industry impacts

- **Lamb expenditure increased by \$209m. Beef expenditure increased by \$438m.**
- **72% of dieticians now actively recommend eating red meat 3-4 times a week – up 10%.**
- **Consumer expenditure on red meat, the source of all industry wealth, has grown by \$2.6bn since MLA began in 1998.**

Beef

Domestic demand for beef continues to strengthen, on the back of improving quality and more positive health attitudes. Consumer expenditure has grown by a further \$438m in 2003-04, to reach a new record of \$6.01bn. Volumes are up 2.6% while retail prices have increased a further 5.1%.

While overall volumes have grown slightly, beef's share of household meal servings slipped back from 37.8% to 36.3%. Because retailers have not been able to pass on the full beef cost increases during the year, they have reduced margins, encouraging them to promote alternative meats more strongly.

A proposed beef industry educational and promotional concept has been deferred due to a reduction in available funds.

Meat Standards Australian (MSA) grading numbers continue to grow, reflecting the ongoing growth in demand from retailers and foodservice for graded product. Our promotions support this by encouraging MSA in purchasing specifications, and supporting MSA underpinned brands.

Sheepmeat

As a result of continuing improvements in lamb quality, supported by our 'We Love Our Lamb' campaign, lamb demand was up three points on 2002-03.

Retail prices in 2003-04 are up another 12.4% and volumes are up slightly by 1.0%. Consumer expenditure has increased by \$209m to reach \$1.75bn.

Although consumer demand for lamb remains strong, restricted supplies and tight retail margins mean consumption levels are lower than we would like. Lamb's share of household meals has slipped from 19.5% to 18.0%.

While current high prices are good for producers, for the longer term we must maintain lamb as a desirable yet affordable everyday meal option.

We launched a new phase of the 'We Love Our Lamb' campaign in September 2003. The commercial achieved high impact but had to be cut short due to the adverse publicity surrounding the Cormo Express incident. Point-of-sale materials communicating the proposition achieved widespread support from retailers.



To buffer some of the impact of the high lamb prices on consumers, Margaret Fulton lent her support on radio, promoting the high quality of the product nowadays. Again we achieved impact for lamb leading up to Australia Day using comedian Austen Tayshus on radio with an irreverent ditty on how we all love lamb on our BBQs.

The results of the sheepmeat eating quality work is gaining widespread support through key supply chains, with all adopting changes in practices to ensure eating quality standards are enhanced.

Nutrition

The 'Red Meat. Feel Good' campaign continues to impact positively on consumer attitudes and behaviour. The third commercial in the series, 'Stairway to Heaven', with its message about the importance of red meat in our diets regardless of age, was launched in all capital cities in August.

Also in August, we launched the CSIRO Total Wellbeing Diet, in partnership with CSIRO and Australian Women's Weekly. This diet, based on CSIRO research funded by MLA, is a 'Protein-Plus, Low Fat Eating Plan' that is proven to be effective in weight loss as well as improving other health indicators. Unlike the Atkins diet, this approach is winning strong support within the nutrition community. The diet has since received extensive coverage in press and television supporting the high profile currently enjoyed by red meat.

We are continuing our nutrition research and have 16 separate studies underway across seven areas of human health. One study, which identified the beneficial effects of high red meat intake among the elderly, received extensive media exposure. Others investigated red meat's contribution to:

- omega 3 intake
- improving low iron intake in young children
- improving cardiovascular disease risk factors.

These findings have supported our work with health professionals and resulted in positive changes in dieticians' attitudes. As a result:

- 72% of dieticians now actively recommend eating red meat three to four times a week – up 10% on last year
- 86% now agree that lean red meat should be included in obesity management – an increase of 14% on last year

We had less positive results in the general practitioner sector with GPs influenced by negative publicity surrounding the Atkins diet. However, GPs' knowledge of the value of red meat has increased.

Retail and foodservice promotion

Throughout the year we undertook a number of activities to engage these sectors including trade shows, competitions, trade tours, food festivals and food writers' events.

Chef's Special, a quarterly MLA magazine, distributed to nearly 20,000 foodservice professionals, aims to educate and inspire chefs to use red meat in their menus.

Red meat continues to dominate foodservice menus, enjoying a 30% share of menu offerings and chefs indicating a high level of satisfaction with the quality.

Short supply and cost increases saw lamb's presence in foodservice outlets drop four points to 38%, while beef maintained its presence in 87% of outlets.

A 'Raising the Standard' initiative was undertaken to help butchers improve their stores and make them more consumer-friendly. A total of 898 butchers have participated, exceeding our target by 20%. This activity, including hosting tours of retailers to other markets, has triggered a significant increase in re-investment by these retailers in their businesses.

Beef point-of-sale promotions are being conducted in partnership with major retailers. This ensures beef receives some meal-oriented activity in the absence of any main media support.

Future

In the coming year, MLA will continue to promote the nutrition message, while developing the next phase for launch in 2005. Our GPs campaign will be refreshed. Nutrition research will continue to provide 'new news' that can be promoted in press. Further adoption of our eating quality programs for both beef and lamb will be sought. Our 'Raising the Standard' retail program will be expanded. The highly successful 'We Love Our Lamb' campaign will continue to drive consumer demand to higher levels.

Collaboration

- Worked with CSIRO and Australian Women's Weekly to launch the CSIRO Total Wellbeing Diet based on MLA-funded research by CSIRO. The diet, promoting higher protein, low fat and moderate carbohydrates, has received wide publicity and gives credibility to the protein message. The diet has also gained strong acceptance among dieticians and nutritionists.
- We worked with Woolworths on the major relaunch of their meat category, and with Coles on category signage and cuts information. Within the butcher sector, we continue to support and encourage those seeking to improve their stores and offers.
- We also worked with complementary food and beverage companies in promotional activities. This included taking advertising within our foodservice publications to help offset costs, and combining meal promotions at retail.

Building demand for our products

Export trade promotion

Objectives

- Increase or maintain sales and market share in retail and foodservice channels
- Continue to strengthen trade relationships.
- Grow demand for Australian red meat products.

Outcomes

- 100% penetration for Australian beef brand in Korean hypermarkets and department stores.
- Increased shelf space and market share for beef and lamb in every major region.
- Increased consumption of Australian lamb across Europe by 21%.

Industry impacts

- **Australia remains the number one red meat exporter. The total value of exports excluding offal and processed meats, was \$4.58bn, up 1%.**
- **Total red meat exports to Japan were \$2.05bn, up 31%.**
- **The value of lamb exports achieved record levels, reaching \$577m, up 14%.**

Beef

The absence of US beef in global markets has enabled the Australian industry to capitalise on its strong position. Despite tight supplies due to drought conditions, and Australian dollar appreciation, the value of total exports has continued to rise. Total beef and veal export volumes have declined from 902,000 tonnes to 860,000 tonnes.

Chinas

Regular visits to Chinese provincial markets are being made to establish trade contacts, and a Beijing office has been established. A comprehensive China strategy report is being developed.

Europe

Beef into the European Union increased by 10% against 2002-03. Prices also increased, rising 15% from 2002-03 prices. Denmark increased tonnage from 847mt to 1,252mt and has maintained 20% share.

Japan

The total value of Australian beef, offal, processed beef, lamb and mutton exports to Japan increased 31% this year to reach \$2.05bn. Volumes increased by 104,000 tonnes reflecting our strong market share which has been boosted by the ban on US imports following a case of BSE in December.

Through our strategy of directly approaching end-users, we worked with 38,600 foodservice outlets and 6,500 retail outlets. We conducted over 4,000 days of in-store cooking events. Survey results show Aussie Beef sales increased 125% on these days.

With greater penetration throughout the foodservice and retail outlets, Australia has increased market share, not only of imports (around 93%), but also the total beef market in Japan (around 45%).

Korea

In Korea, MLA achieved 100% penetration for Hoju Chungjung Woo (HCW), Australia's beef brand, in hypermarkets and department stores, as well as in the family restaurant and five star hotel sectors. The HCW beef brand is prominent in leading retail outlets on over three million shelf-stable Australian beef ready meals per month.

We held over 11,000 sampling days in hypermarkets, and we continue to gain leverage from our reputation as a supplier of clean, safe red meat.

North America

A 27% increase in chilled beef volumes during the year solidified the US as our second largest chilled beef market. Penetration in the foodservice and retail sectors also increased.

New retail accounts worth in excess of \$60m were gained as a result of selected import contract agreements with Australian exporters.

The manufacturing beef market remains a key area of our activities and this year we succeeded in having a large prepared food manufacturer include Australian manufacturing beef in their offering.

South Asia

Australian red meat's shelf space increased substantially across the region this year, as did red meat's presence in the foodservice sector.

MLA conducted a number of promotions to strengthen our market share including the *Asian Retail Cut Guide*, trade seminars and trade shows. We also published the bi-monthly *Asian Nutrition News* and ran nutrition programs aimed at school children.

Sheepmeat

Sheepmeat exports increased by \$11m to \$945m despite a reduction in volumes from 250,000 tonnes to 232,000 tonnes. The Australian sheepmeat industry demonstrated its resilience by delivering these results despite tight supplies and an appreciating dollar.

Europe

Consumption of Australian lamb increased 21% across Europe to 15% of total exports. The UK showed the greatest growth, now representing 64% of trade to the region. Switzerland increased 17%, and Poland entered the market for the first time with direct imports of frozen lamb (153mt).

Japan

Australian lamb exports to Japan have continued to expand. A lamb recipe leaflet was developed for Aussie lamb retail promotions. This, and other promotional activities, have contributed to continued improvement in consumer awareness and perceptions towards lamb.

Middle East and Africa

In the United Arab Emirates (UAE), the volume of chilled lamb carcass exports declined, as did frozen bone-in carcasses, down 28%. However, we saw increases in the per tonne value of chilled bone-in primal cuts (57%), boneless (159%) and frozen (282%). Average values have increased by 34%.

Reduced supply and the opening of markets to price competitive products impacted on our traditional mutton markets and exports were down 9% to 28,300mt.

Trade development activities for mutton were undertaken in emerging markets such as Libya. Sheepmeat exports to Africa have increased by 50% to reach 9,264mt, and exports to South Africa rose by 9% to 7,777mt.

South-East Asia/Chinas

We participated in conferences in India expanding our database of contacts. We worked with chefs and retail in Taiwan and developed recipes promoting lamb. We also ran workshops and seminars in Thailand, Malaysia and The Philippines targeting the foodservice sector and building strong relationships in that sector.

United States

The US remained Australia's largest market for lamb exports accounting for 30% of total exports. Volume rose 18% and value increased 20% to \$264m. Demand for Australian lamb remains strong within both the retail and foodservice market segments.

MLA's broad marketing mix included a new initiative to expose up and coming chefs to Australian lamb. Held in conjunction with Johnson and Wales University, "A Taste Down Under" reached over 2,000 young chefs.

This year saw a greater focus on co-funded in-store demonstrations with one major retail account increasing volume by 10%. Another major new retail account was secured with annual sales volume expected to reach at least 3,500 tonnes.

Financing overseas operations

To finance overseas operations MLA purchases foreign currency contracts 12 months in advance to ensure funds are available for programs. Under this policy we can carry out planned programs overseas and not have to reduce or halt activities midway through a year due to currency fluctuations.

This means that when the Australian dollar appreciates losses are made, and when it depreciates gains are made, with gains and losses tending to cancel each other out over a full economic cycle. The main benefit to industry is that an adverse impact is reduced by avoiding interruptions to planned activities in an unfavourable climate.

The continued rising value of the Australian dollar through the year resulted in a loss of \$2.24m. (For more details see page 78.)

Future

The safe image of Australian red meat and our ability to service customers, has given Australia defensible and sustainable market share gains. We have an enviable market position. In the year ahead we will work to leverage every opportunity for the industry.

Collaboration

MLA works to build relationships and promote Australian red meat in all our markets. We team up with other companies to get greater leverage from our promotions. For example, we joined with Southcorp Wines and an Australian exporter in the US to promote Australian chilled beef at the month-long Disney Epcot festival. And in Japan we worked with Tourism Australia, Qantas, Australian Wine Bureau and Wolf Blass wines on numerous joint promotions.

Building demand for our products

Market access

Objectives

- Defend and, where possible, improve market access conditions.
- Conduct research into the impact of access barriers on our red meat industry, and into strategies for removing these barriers.

Outcomes

- Saudi offal ban lifted.
- Australia/Thailand Free Trade Agreement (FTA) delivered excellent results for industry.
- Achieved objectives for the Australia/US FTA.

Industry impacts

- \$8m–\$10m per annum generated from opening Saudi offal trade.
- \$1.1bn–\$1.7bn estimated cumulative potential benefit to industry from Australia/US FTA.

MLA, in conjunction with the peak industry councils and the Federal Government, successfully reduced a number of trade barriers this year.

In July, after many years of effort, the Saudi Arabian Government removed a ban on importing offal and meat products containing spinal cord. In January, a ban on transshipments was also lifted allowing meat to enter Saudi Arabia through transit ports and making shipping to east coast Saudi Arabia more efficient.

The Australia/Thailand FTA produced significant results for the industry. Tariff reductions were achieved in both the red meat and live export sectors, with all tariff barriers to be eliminated in coming years, delivering \$780m¹ per annum to industry.

MLA was actively involved in the Australia/US FTA and met our key objective of achieving an immediate increase in access (once the FTA comes into force) through the removal of all lamb and the majority of mutton tariffs, and elimination of all in-quota beef tariffs. This will eliminate an estimated \$23m burden on the trade. In addition, Australia's existing 378,214 tonne beef quota will increase by 70,000 tonnes over 18 years, and then be lifted completely, representing an estimated \$1.1bn to \$1.7bn¹ to industry.

The World Trade Organization (WTO) Doha Round is still underway, however we achieved a number of important milestones during the year. In particular, we liaised with government to ensure red meat industry objectives were acknowledged and we represented industry interests at all key forums.

There were numerous other issues in which MLA was involved, to further industry interests. These included country of origin labelling in the US, and holding a Tri-Lamb Forum (Australia, US, New Zealand) to lift US

lamb consumption. We also coordinated lobbying efforts to oppose the Japan beef tariff safeguard, and established a memorandum of understanding between the Australian and South African red meat producer industries. We organised a meat forum in Egypt to address technical access, and were involved in access arrangements in the European Union, and beef access and veterinary cooperation in Russia.

Complementing our industry positioning and lobbying, MLA undertakes research to provide economic rationale for market access. Work included:

- ➔ the Magellan Global Beef Liberalisation study
- ➔ a study showing that a highly protected domestic industry need not automatically decline once that protection is removed
- ➔ research showing that New Zealand and Australia would gain from opening the EU sheepmeat quota
- ➔ a report showing the cost to the Japanese meat trade, consumers and economy of placing tariff safeguards on Japanese beef imports

Future

Work will continue towards achieving a positive outcome from the WTO Doha Round. MLA will also be actively involved in bilateral trade liberalisation efforts – in particular the feasibility of progressing FTAs with China and Malaysia.

Collaboration

MLA is a respected participant in market access negotiations. Throughout the year we worked closely with the Department of Foreign Affairs and Trade and the Department of Agriculture, Fisheries and Forestry on every major issue relating to red meat market access. MLA also convened two industry/government meat access forums to facilitate a joint, coordinated approach across all access issues.

¹ Estimated cumulative potential benefit to industry.

Red meat innovation

Objectives

- Identify and capture benefits from emerging trends.
- Develop innovative products, technologies, merchandising and packaging solutions.
- Align practices, capabilities and culture to consumer trends.

Outcomes

- Shelf-stable technology is moving into domestic markets.
- Increasing utilisation and value of lower value red meat cuts.

Industry impacts

- Innovative technology added \$10m to export markets.
- Increase in red meat used in value added products from 162,000mt (2000) to over 206,000mt in 2003.

The Red Meat Innovation program aims to ensure the industry is in the best possible position to capture the benefits of value adding, such as emerging trends and opportunities, along with developing innovative products, technology and merchandising solutions.

Flow on benefits from this program address the triple bottom line by adding dollar value to red meat, responding to consumer and health needs and finding innovative ways to reduce packaging waste.

The top 25 value adding companies are reported to currently use 206,000mt of red meat in their value adding processing, a substantial increase from 162,000mt used in 2000.

Strategic research

We made significant progress in the development of meat strip alignment technology (MSAT) through the year. The technology is a method for aligning meat strips to significantly control the texture of manufactured meat. Sensory research confirmed its viability and, over time, it will generate improved commodity prices with 60% anticipated to flow on to the producer.

A patent is now pending on MSAT and the process, and we are currently commercialising the equipment.

Shelf-stable technology

New technology providing shelf-stable, value added red meat products has created an avenue for expanded exports to the European Union. The technology was initially a process applied to cooked lamb shanks, so they can maintain the quality of individually packaged product, and stay unrefrigerated for up to 12 months.

This year the demand for shelf-stable products has expanded onto the domestic foodservice market. These products are increasing the value of low value cuts and increasing the sales of red meat products in the foodservice sector.

In-store point-of-sale solutions

The in-store point-of-sale solution is a hands-on management system developed for retail butchers. It is centred on an integrated hardware and software module, specifically tailored to retail butchers. It includes a sophisticated sales register suitable for the butcher store environment, scales and printer with integrated EFTPOS, and a customer advertising screen that presents information about specials and new products.

This innovative management system also includes a website that provides butchers with the infrastructure to set up and run their own customer loyalty program. Customers can earn points on their purchases and then redeem them against future purchases similar to 'frequent flyer' or petrol/grocery schemes. This is especially useful for retailers with multi-outlet businesses. The website is also an information resource for butchers.

Future

We will continue our work to increase value, respond to consumer trends and find innovative ways to reduce packaging waste and make the red meat industry a more environmentally friendly industry.

Collaboration

We are collaborating with the National Centre of Excellence in Functional Foods, which is supported by the National Food Industry Strategy. Through this centre we will help the red meat industry respond to emerging consumer nutritional trends and scientific advances in food and health.

Building demand for our products

Co-products

Objectives

- Capitalise on functional and chemical properties of rendered products for industrial applications.
- Position Australia as a preferred supplier to the health, wellbeing and biotech industries.
- Increase the industry's capability to capture value from co-products.

Outcomes

- Research priorities for Co-products program identified.
- Successful technical presentations in China created awareness of Australian rendered products.
- New products and partnerships in high value bioactives area.

Industry impacts

- **The market position of co-products is being maintained through technical projects.**
- **New opportunities for rendered co-products are being developed.**
- **High value bioactives markets and opportunities continue to be developed.**

The Co-products program aims to position industry to capture value from a range of opportunities, taking advantage of Australia's competitive positioning as a 'clean and green' source of high value/high integrity raw materials.

MLA and Monash University initiated a design project for chemical engineering students focusing on the rendering industry to include tallow as a feedstock to produce biodiesel. Additional post-graduate projects, such as energy management and optimisation, have also commenced on rendering sites.

Projects such as these provide the rendering industry with the opportunity to collaborate in university-based R&D projects.

Our high value bioactives research aims to maximise new and exciting opportunities for commercialising biologically active components of red meat for the international health care, nutrition and food industries.

Through the year we identified a number of opportunities for high value bioactives, the main one being around blood-derived fractions. Next year we will focus on developing these opportunities.

Strategic alliances are central to the ongoing search for new opportunities. An important alliance is with Australian Dehydration Technologies (ADT) Pty Ltd, the US Department of Agriculture and the Agricultural Research Services, Eastern Regional Research Centre. This collaboration will include applying technologies to meat and bonemeal that have been shown to inactivate infectious BSE prions, characterising the resultant materials to target potential non-feed applications.

In April, the Fats and Proteins Research Foundation, Inc. approved an inaugural group of proposals comprising nine interdisciplinary objectives to be undertaken at the Animal Co-products Research and Education Centre, Clemson University, South Carolina. Projects include analysis of separable fractions of proteins from animal by-product materials, and extrusion and moulding of animal protein fractions and fats for packaging applications.

MLA works with the Australian Renderers' Association (ARA) in a number of areas. This year we facilitated a strategic planning workshop attended by the ARA executive and management. Following on from the workshop, ARA and individual rendering enterprises will contribute to a number of new projects.

This strategic alliance model will now be used as the basis for building new relationships with other allied industry associations.

Future

To further our university-based work a short list of potential industry projects is under review.

Collaboration

International research and technical awareness networks are used to keep abreast of international developments and ensure that best use is made of available R&D resources. Using local and international networks, we have identified more than four potential new partners. We will develop dialogue to explore the possible opportunities and identify projects in the coming year.

2

Guaranteeing the integrity of our products

Consumers globally are becoming more aware and better educated about the foods they eat. Consumer-led demand for product integrity is escalating and Australia must position itself to meet this demand. To do so with confidence we must be able to guarantee our products at every stage of the supply chain.



Guaranteeing the integrity of our products

Meat safety and issues management

Objectives

- Rigorous management systems to deliver safe and hygienic products to the market place.
- Rationalise regulations and standards within the industry and implement sound crisis management principles and strategies.

Outcomes

- Laid foundations for the successful introduction of LPA Level 1.
- Guidelines for the safe manufacture of smallgoods recognised by food regulators.
- Predictive microbiology approaches drafted into export legislation.

Industry impacts

- **Close to 80,000 producers provisionally registered with LPA to receive information packs.**
- **New food safety tools assist industry to comply with regulations on manufacture of fermented meats.**
- **6,150 producers attended 48 NLIS workshops throughout Australia**

MLA's Meat Safety/Issues Management program supports the activities of SAFEMEAT, a partnership between federal and state governments and all sectors of the red meat industry. SAFEMEAT oversees and promotes sound management systems to deliver safe and hygienic products to the market place. It also promotes rationalisation of regulations and standards within the industry and implements sound crisis management principles and strategies.

Meat safety

Research and development

Work on Enfer ELISA and Biorad rapid test procedures for Bovine Spongiform Encephalopathy (BSE) was finalised and the tests are now accredited for use. These rapid tests for BSE provide Australia with rapid screening capabilities that can be used to detect any incidence of this disease to enable and maintain market access.

A further project is also underway to fully validate the polymerase chain reaction (PCR) test which will detect animal-derived DNA in stockfeed. This project is expected to reach completion by the end of 2004.

Preliminary studies have indicated that reduction of *E. coli* shedding in feedlots can be reduced by 99% through a short-term feeding regime. New technologies have been developed for monitoring of the next trial.

We have planned a further trial to determine the impact of short-term feeding on both *E. coli* shedding and cattle. This trial is on track and we expect it to be completed in late 2004.

An abattoir microbiological baseline survey is also on track and 50% completed. It shows a 90% reduction in some indicators, such as total viable count (TVC). *E. coli* prevalence has also been reduced by around 20%. Final results will be available in late 2004.

Education and communication

MLA hosted a number of international trade delegations to promote Australian safety systems. Also, a number of food safety brochures were published in English, Japanese and Korean to promote the safety of Australian red meat in international markets.

As well, we commenced re-development of the SAFEMEAT website.

We were successful in having AVCARE accept responsibility for setting estimated slaughter intervals (ESIs) and withholding periods (WHPs) for on-farm chemical use. MLA delivers updated information on ESIs and WHPs to producers via *feedback* magazine (these were published in the July 2003 edition).

Workshops dealing with critical food safety and regulatory issues for processors across Australia attracted over 250 participants. A later survey indicated

a high rate of follow-up by participants after returning to the workplace.

We published *Guidelines for the safe manufacture of smallgoods* and held workshops across Australia. Changes to food regulations and MLA-developed tools for manufacturers were highlighted. The food regulations contain a note recommending the use of our guidelines to assist manufacturers to comply with the new regulations.

The Australian Quarantine and Inspection Service (AQIS) has proposed modifications to the Export Meat Orders. It recognises MLA-sponsored work in predictive microbiology and allows considerable opportunities for industry innovation and process efficiency.

On-farm food safety

The Livestock Production Assurance (LPA) program was launched on 1 July 2004. LPA is an on-farm food safety certification program that adds rigor to the existing National Vendor Declarations (NVDs). This included the development of the combined NVD and waybill that underpins LPA Level 1. An emergency NVD and electronic NVDs (eDecs) were also developed and delivered as part of the preparations for the introduction of LPA. At the same time, all commodity vendor declarations were reviewed with final implementation expected in September/October 2004.

The LPA 1800 number registered 77,879 property identification codes (PICs) from 1 March to 30 June and we have responded to 101,197 producer enquiries.

The introduction of LPA has created a user pays system for NVDs, which included the establishment of an electronic funds transfer system for credit card use.

Work has also commenced on reviewing the existing Level 2 programs.

NLIS

MLA's role in the National Livestock Identification System (NLIS) is to provide and maintain the NLIS database and provide information on the use of NLIS to all industry sectors.

Infrastructure was developed to meet the demands of a state-by-state roll out, and additional field and helpdesk staff were assigned to support the NLIS team.

Attendance at 48 NLIS workshops conducted Australia-wide reached a record of 6,150 producers.

During the year we achieved ISO 9001-2000 accreditation. A database audit was conducted this year and finalised during third quarter of 2004. A strategy is in place to address issues related to database integrity.



MLA finalised the rumen bolus recovery trial (stage 1), and we are now in a position to move towards stage 2 of this trial.

Issues management

MLA acted quickly to address food safety concerns in the US in the light of the BSE case there. We targeted our existing accounts with information and news on Australia's BSE-free status and food safety guidelines and met with leading food retailers.

We continued to present details of Australia's food safety systems to many visiting delegations throughout the year.

Future

We will continue to focus on areas of meat safety that are likely to have the greatest impact on market access and areas where new processes offer opportunities for gains in efficiency.

Collaboration

MLA works with both government and industry through our support of SAFEMEAT.

In the area of food safety research, MLA is a core member of the Australian Food Safety Centre of Excellence, funded by the National Food Industry Strategy.

Guaranteeing the integrity of our products

Meat Standards Australia

Objectives

- Provide an accurate, reliable eating quality standard based on established procedures.
- Implement a world-class grading and technical support service to meet the production and information needs of the industry.
- Provide information and training to assist widespread understanding of MSA.

Outcomes

- Ongoing research continued to improve the MSA model and we introduced a standards manual for saleyard operators.
- Further developed MSA grading services ISO 9001:2000 system.
- Continued to develop and deliver MSA training courses for the retail and foodservice sectors.

Industry impacts

- **MSA grading is now offered at 34 processing plants.**
- **16 plants employing 58 on-site graders.**
- **520,000 head graded – a 42% increase.**

Meat Standards Australia (MSA) grading numbers continue to climb with 520,000 head graded this year, a 42% increase on last year. Grading is now offered at 34 processing plants with 16 plants employing 58 on-site graders.

Research and development on the Hot Grading Model continued during the year, with the Pathways Committee giving final sign-off in July 2004. The development of this model will add significant value to larger beef processors when they enter the MSA system.



MLA continues to work with supermarkets and their suppliers to train staff on MSA and implement MSA science and practices in their supply chains.

We developed a new MSA standards manual specifically for saleyard operators. Since the manual's introduction, we have approved a total of 26 saleyards to conduct MSA sales and trained saleyard staff in the new system.

A detailed MSA cost-benefit analysis was commissioned, with the final report expected in the second half of 2004.

Future

MSA will continue to monitor future developments in objective measurement technologies and intervention systems, wherever they have a positive impact on beef eating quality.

Collaboration

MSA will continue to work with all industry sectors to develop and implement a commercially-focused grading model that will deliver improved beef eating quality for consumers.

3

Providing the infrastructure to support a competitive industry

Successful businesses rely on a robust infrastructure to deliver product integrity and supply chain efficiencies. New technologies and the accelerating pace of change drive the imperative for a competitive edge for our products in the global market. The success of the Australian red meat industry lies not only in its products, but also in the efficiency of its systems.



Providing the infrastructure to support a competitive industry

VIAscan

VIAscan is video imaging analysis technology designed to deliver more objective feedback on carcass yields, benefiting both producers and processors. The technology, developed through MLA funding, has been commercialised, with 11 machines currently operating in beef and sheep processing plants in Australia and New Zealand.

The intention has always been to commercialise the technology and place the administration, marketing and development of VIAscan in the hands of an organisation that has the required infrastructure and expertise.

On that basis, MLA sought an appropriate company to takeover the commercial operation of VIAscan.

In April we announced the sale of the VIAscan technology to Brisbane-based company SASTEK, an Australian owned company with strong links to the meat processing sector in Australia and New Zealand.

VIAscan's marketing arm, VIAscan Quality Assessment (VQA) has also been purchased by SASTEK.

Expressions of interest for the purchase of the VIAscan technology and VQA were sought in November after ownership reverted to MLA.

The sale of VIAscan and VQA to SASTEK will include a payment of \$480,000 to MLA, along with a percentage of sales should revenues exceed an agreed threshold.

(For more details see page 72)



Supply chain management

Objectives

- Enhance the industry's competency and capability in supply chain management (SCM).
- Assist the development and implementation of new enabling technology platforms and the application of SCM-focused systems.
- Increase the level of innovation within supply chains through partnering with industry groups to implement specific projects.

Outcomes

- Processing sector awareness of the SCM program increased from 55% to 77%.
- e-business, sheepmeat eating quality and through-chain environmental management systems under development.
- Ten case studies of best practice SCM are being finalised for dissemination to industry.

Industry impacts

- **\$4.7m invested in innovative SCM partnerships with producers and processors.**
- **A global platform for e-business technology now adopted by 80% of Australia's processing capacity.**

This program is in its second year and aims to ensure that our industry is positioned at the leading edge to gain competitive advantage through innovation in supply chain management (SCM).

Initial stages of this program have focused on raising awareness of supply chain management. During the year we increased awareness of the program in the processing sector by 22%, up from 55% to 77%.

A number of communication activities were implemented to raise awareness including:

- an information brochure
- an email newsletter
- a pilot Executive Development program
- website content (on mla.com.au)
- site visits
- presentations

e-business technologies will enable the Australian red meat industry to collaborate on a new level. MLA worked with government and industry to accelerate the adoption of a global platform. To date, approximately 30% of processors, representing 80% of industry's capacity, have adopted the platform. This allows seamless transfer of information between partners and is not dependent on the individual technology used. This platform has been critical to the development of electronic NVDs and Meat Transfer Certificates – electronic versions of these documents will save the industry significant time and money.

A pilot EAN (European Article Number) system demonstrated that EAN bar coding and electronic messaging is applicable in the export environment. It will eliminate paper and facsimile transfers and boost

operating efficiency and traceability of meat products. The World Customs Organisation (WCO) will base a trial of one common identification number for all exported items on the EAN pilot. If the trial is successful and adopted globally, Australian exporters will have a competitive advantage by already meeting the WCO's requirements.

Currently \$4.7m is invested in more than 14 projects.

One of these projects, Smart Trace, is developing a technology platform that allows companies to monitor the location and temperature profile of chilled and frozen products during transport in near real time. The project has attracted a great deal of interest from a number of leading companies.

Future

Our focus for 2004-05 will be to raise the level of understanding of supply chain management and the benefits it can deliver to all partners.

Collaboration

Supply chain management by its nature requires collaboration. In this instance we are working closely with all industry sectors to promote and encourage industry-wide collaboration for mutual benefit.

Providing the infrastructure to support a competitive industry

Market information

Objectives

- Provide a solid foundation of accurate, timely, independent market information.
- Provide analysis of markets both domestically and internationally.

Outcomes

- Market forecasts received widespread publicity and proved broadly accurate.
- Farm survey data now available online.
- Responded to media interest providing an average of six interviews per week.

Industry impacts

- **MLA market projections used in US beef quota deliberations.**
- **Visits to MLA market information news increased 89%.**
- **Developed market information package on sales direct to live exporters.**

During the year we published two sets of forecasts – mid-year forecast in September and full-year forecasts in February. We held seminars in Brisbane on the beef forecast which were attended by all major Queensland processors and most major pastoral companies. Both sets of forecasts attracted widespread publicity and received substantial acclaim.

Despite public criticism of some aspects of the forecasts, MLA's predictions have proved to be broadly correct. We also provided a special paper drawn from the projections to Australian Meat Industry Council as background for their deliberations on whether the Australian Government US beef quota management scheme should continue to operate for 2004 and beyond.

This year intense media speculation surrounded the Australian/US free trade agreement and BSE in the United States, along with the drought. This resulted in an average of six radio interviews per week throughout the year.

Subscriptions to our market information newsletter, *Meat & Livestock Weekly*, increased by 25% (for email and hard copy) to reach 2,445.

Online

In June, we launched the farm survey data tool giving producers and others easy access (through the MLA and ABARE websites) to data collected by ABARE through the Annual Agricultural and Grazing Industries Survey (AAGIS).

Visits to the MLA market information news service reached 5,765 in June, up 89% on June 2003. Overseas information centres attracted 670 visits to their web pages (up 58%) and visits to the cattle futures pages rose 15% to reach 1,260 visits.

NLRS

The incorporation of several additional corporate subscribers, additional income from Queensland saleyards and consistent ad hoc projects resulted in National Livestock Reporting Service (NLRS) exceeding its income budget by \$94,000 to total \$668,000, up 25% on the previous year.

We revamped NLRS over-the-hooks cattle reports to provide considerably more price detail for export steers and cows. The main purpose was to provide greater segregation of weight and dentition to ensure relevance to current market specifications.

Extensive discussions with the live export R&D committee resulted in the development of a market information package encompassing sales direct to live exporters.

The new NLRS database is now in operation and being rolled out progressively. The development and implementation of the Internet module is awaiting the corporate website redevelopment. We will gradually release additional modules and complete integration of the new system across the entire service by mid-September.

Cattle futures

Only four cattle futures contracts were traded per day by June 2004 – well below the 20 targeted. However, both trades and open interest rose over 40% on the previous year, and there is a build-up in commercial activity related to the futures, for example, in over-the-counter risk management products and basis and forward contracts by processors and feedlots.

Targets for trading and awareness were exceeded this year.

Targets for intention to trade cattle futures were exceeded:

- 17% of producers (up on the 5% target)
- 22% of lotfeeders are likely to trade cattle futures (above the 20% target)
- 9% of the meat sector (above the 5% target)

Awareness targets were also exceeded for producers (58%, above the 50% target), however lotfeeders only reached 68%, short of the 75% target.

We did not derive any meaningful results from the survey for the meat sector.

Future

The online one-stop-shop for market information is on target to be developed by January 2005.



Communication

Objectives

- Position MLA as a respected opinion leader, industry champion and business partner.
- Ensure key stakeholders are aware of MLA programs and their benefits.
- Encourage producer involvement.

Outcomes

- New brand strategy developed to raise awareness of MLA programs.
- 2% increase in membership.
- 41% increase in visits to website.

Industry impacts

- 78% of Meat Profit Day attendees said information provided was very good or excellent.
- 99% of members read *feedback* magazine.
- Over 200 publications produced.

In July we conducted research into members' communication needs and their awareness of MLA. The survey showed that although producers had a reasonable level of awareness of MLA programs, they do not always associate the work with MLA.

To address this we developed a new MLA brand identity and will phase it in to all our communications from July 2004.

Events

A Meat Profit Day was held in Kingaroy on 24 March and attracted over 600 attendees. A survey evaluating the event revealed that:

- 78% thought the information provided on the day was very good or excellent
- 99% felt the day was a good use of levies
- 98% would attend another Meat Profit Day.

Planning was underway during the year for a Meat Profit Day in Longreach, Queensland (August 2004) and Deloraine, Tasmania (March 2005).

A number of producer forums were piloted in Queensland, Tasmania and Western Australia. Evaluation results indicate 95% of producers who attend feel that the event is a good use of the levies. Given the success of the pilot, more producer forums are planned for 2004-05.

Providing the infrastructure to support a competitive industry

Online

A project was commenced to rebuild the corporate website to address usability issues and provide a platform for future growth. The project is due for completion in the first half of 2005.

The website experienced increased traffic with an average 1,148 visits per day in the second half of the year, up 41% on the first half, and our average Hitwise ranking moved up from 18 to 12. This was due to a number of factors including:

- new information tools
- an increase in subscribers to web updates, up 14% to 2,933
- the introduction of Livestock Production Assurance.

Publications

We produced over 200 publications during the year ranging from posters to detailed technical manuals such as:

- More Beef from Pastures producer's manual (launched in August 2004)
- a range of practical 'tips & tools'
- numerous regular newsletters covering market information, food safety, genetics, nutrition, processing technology, live export, etc.

feedback magazine – highlighting MLA's R&D outcomes and their on-farm implications as well as market, marketing and industry news – continues to rate well with members. Research showed 76% of members rate it as either good or excellent, and 99% read some, if not all articles.

We also publish *Prograzier*, a free quarterly magazine aimed at producers in southern Australia. *Prograzier* carries practical on-farm articles about applying new skills and practices to improve productivity and sustainability.

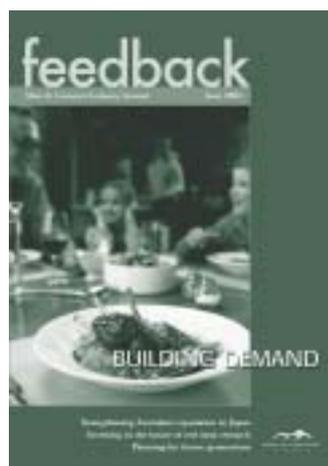
Member involvement

Membership at 30 June was at 30,011 up 2% on last year. Work continues on increasing membership.

To better understand our member profile, we incorporated census data into our Campaign Planner software matching it to MLA membership data. This allows us to identify where we have strong uptake of programs, or where programs might be of benefit, and so make our communications more targeted and relevant.

Media

Media is a key communication channel for MLA. Through the year we used media releases, advertisements, television segments and media briefings to support the communication of MLA programs.



4

Developing an internationally competitive supply of our products

Ongoing research and development is a crucial foundation for improving productivity and addressing environmental issues, and at the same time enhancing the quality and sustainability of our industry.



Developing an internationally competitive supply of our products

Off-farm efficiency

Objectives

- Support the processing sector in becoming more competitive and profitable.
- Support projects to understand and improve the environmental sustainability of the processing sector.
- Support the development of programs to ensure the health of meat industry workers.

Outcomes

- Responded to government and community environmental concerns.
- Two new technologies successfully installed in processing establishments.
- OH&S management systems being developed through the industry.

Industry impacts

- **Industry achieving a 10% reduction in energy consumption.**
- **Record \$8.8m invested in robotics and processing efficiency.**

MLA works collaboratively with the processing sector and Australian Meat Processor Corporation (AMPC) to develop and deliver a wide range of research and development programs that will assist the sector to improve competitiveness and profitability.

Environment

This year saw the validation of past work in the processing sector with a 10-facility environmental performance study showing improved environmental efficiencies in many areas. More significantly, it showed a culture shift towards better environmental management with marked improvements such as a 10% decrease in energy consumption per tonne of product. Some facilities also demonstrated significant reductions in water consumption, in part assisted by MLA's activities in this area, for example the *Eco-Efficiency Manual for Meat Processors* and on-site projects to reduce nutrient emissions.

One major meat processor has already adopted the data gathering and reporting formats, developed in this project, to provide environmental corporate reporting as part of an internal management information system. This tool is expected to make a significant impact on sustainability at an operational level.

Currently, 26 abattoirs voluntarily report on energy/greenhouse gas reduction targets to the Australian Greenhouse Office.

During the year, the prototype Electronic Nose instrument developed by MLA was successfully trialled at a NSW

abattoir. The technology has been patented and work is underway for its release as a commercial product. Odour is the main community concern with meat processing facilities. The arrival of an objective, real-time device such as the e-nose offers a breakthrough in addressing this issue.

To address concerns about the environmental impact of industry, we are undertaking a lifecycle analysis of the supply chain. This long-term project aims to identify and benchmark supply chain metrics relevant to environmental sustainability. The information will be used as the basis for corporate and government reporting and to plan for continuous improvement.

In conjunction with industry peak councils, MLA provided an 'all-of-supply chain' response to an issues paper from the National Food Industry Strategy regarding environmental sustainability in the food industry.

Automation

Industry's investment in robotics increased 320% this year to \$8.8m – a measure of the success of encouraging the processing sector to engage in robotics. Thirteen new projects were commenced and seven new processors participated this year.

Two new technologies were installed – a sheep Y-cutter and an automated kidney fat remover. A beef auto-splitter was also installed and commissioned with additional development of sensing technologies to be completed in 2004-05.

Ten companies have committed to install at least 10 machines in co-funded development to implement new technologies in processing plants.

Work on beef scribing and sheep primal cutting technologies were commenced and are due for completion next year.

Three new 'Plant Initiated Projects' were finalised for:

- an automated sheep Y-cutter – involving six processors and a \$3m investment
- a semi-automated sheep shoulder remover – involving five processors and a \$1.7m investment
- a semi-automated sheep spine remover – involving two processors and a \$1m investment.

New technology suppliers have been engaged to commercialise the sheep Y-cutter, kidney fat remover, beef auto-splitter and beef scribing technologies.

Occupational health and safety management

Our work in promoting occupational health and safety (OH&S) management systems has been widely

embraced. In NSW, 77% of meat processing sites are documenting and auditing their systems.

We partnered with an Australian processor to design, develop and implement a best-practice, certified OH&S operation/management system.

Future

Off-farm efficiency developments will continue to ensure that processing establishments address economic, environmental and social expectations.

Collaboration

Our programs in this area are developed in conjunction with AMPC research committees to ensure a high degree of relevance and ownership by the sector. They are based on leading edge R&D knowledge and methodologies in the various technical areas.



Developing an internationally competitive supply of our products

On-farm – northern beef

Objectives

- To improve the productivity and sustainability of beef production in northern Australia.

Outcomes

- 29% increase in the number of tropical calves recorded on BREEDPLAN.
- 446 northern producers attended EDGENetwork courses.

Industry impacts

- The rate of genetic gain has increased from \$0.20 (1997) to \$1.20 in the last full year of progeny records.
- Nearly 80% of producers who attend EDGENetwork courses have subsequently changed one or more aspects of their management.

Improving producer efficiency

This year 248 northern producers attended EDGENetwork courses. A survey found nearly 80% of producers who attended have changed one or more aspects of their management as a result of attending the courses. Uncertainty over continued FarmBis funding in Queensland impacted on attendance.

We continued our backing of BeefPlan, an initiative that brings together groups of like-minded producers to learn from each other, consultants and advisers. Eight BeefPlan groups were supported through the year.

Thirty-five articles on the Northern Beef program were published in *feedback* to help keep producers informed on R&D results and their on-farm benefits.

Productivity and animal health

The Tropical Beef Technology Services – a consortium of MLA, Agricultural Business Research Institute and the tropical breed societies – continue to produce good results. The number of tropical calves recorded on BREEDPLAN has continued to increase, now up 234% on the number recorded six years ago. The rate of genetic gain, as measured by the BreedObject \$Index for Brahman grassfed Jap Ox, has increased from \$0.00 in 1998 to \$0.80 in the last full year of progeny records.

A number of other projects to improve the reproductive performance in northern herds were approved or contracted including:

- the examination of calf wastage between cycling and weaning
- the assessment of bull fertility based on sperm chromatin structure

- the evaluation of cost-benefit of high input management of breeding herds
- options to reduce the age at first joining in Northern Territory herds
- an on-farm demonstration of management practices to increase the efficiency of first- and second-calf heifers in the Northern Territory and Kimberleys.

We also contracted projects to:

- demonstrate the efficacy of an experimental single dose bovine ephemeral fever vaccine
- produce new polymerase chain reaction diagnostic tests for the major diseases: vibriosis, trichomoniasis and leptospirosis.

Natural resource management

Work continued on the Pigeon Hole project, a collaborative project with Heytesbury Beef investigating economically feasible approaches to sustainable increases in pasture utilisation in the Northern Territory's Victoria River Downs district.

Three Near Infrared Reflectance Spectroscopy (NIRS) projects in Queensland and Western Australia have been extended for 12 months, mainly as a result of the impact of drought on completing required work activities. These tests are used to determine the nutritional value of pastures under varying conditions.

Two large projects are underway in the Burdekin and Fitzroy catchments to assess the impact of using recommended grazing strategies on key environmental indicators, including those relating to run-off and water quality.

We initiated a project to examine the capability of using MODIS (moderate resolution imaging spectroradiometer) satellite imagery to monitor both ground cover and available feed, with an initial focus on the Burdekin catchment.

The Wambiana grazing trials near Charters Towers continue to evaluate the effectiveness of using Southern Oscillation Index-based seasonal climate forecasts in stocking rate decisions.

Future

To support continued innovation, MLA sponsored six researchers from northern Australia to attend national and international conferences. We also supported a

number of undergraduate students to undertake work experience in the Northern Territory. A recent review found that 11 out of 14 students have returned to the region to work following their graduation.

Collaboration

MLA works with northern beef producers in evaluating all northern beef research and development applications. Ten regional committees are represented on the Northern Beef Program Industry Committee that reviews all R&D applications and advises MLA on both strategic and operational elements of this program.

On-farm – southern beef

Objectives

- To improve the productivity and sustainability of beef production in temperate areas.
- To facilitate delivery of technical information to assist producers implement on-farm change.

Outcomes

- Delivered a producer manual from the Sustainable Grazing Systems program.
- Established the Grain & Graze collaboration to improve productivity and address natural resource management.
- Developed material for a technical manual covering eight subject areas to deliver on-farm R&D results through a 'whole of enterprise' approach.

Industry impacts

- Four natural resource management workshops developed.
- Rate of genetic gain for profit in beef cattle up 25% over the average for 1998-2003.
- 90% increase in beef producer involvement in EDGE courses.

Enhancing beef production sustainability

There are a number of common goals and issues in the area of natural resource management and sustainable production systems. On that basis investment in this area is shared with the Lamb, Sheepmeat and Goatmeat program to leverage greater results for southern producers. All activities are jointly planned and managed to meet beef, and lamb and sheepmeat objectives.

Two major initiatives are driving work in this area – the collaborative Grain & Graze program and the high rainfall grazing system program, Profitable Animal Production from Perennials.

Partners in the Grain & Graze program are MLA, Grains Research and Development Corporation, Land and

Water Australia (LWA), Australian Wool Innovation (AWI) and catchment management authorities in eight regions across five states. The program focuses on improving business profitability while addressing regional natural resource management goals, with a particular focus on water use and biodiversity decline.

The Profitable Animal Production from Perennials program is a collaboration with the Salinity Cooperative Research Centre. It focuses on developing new animal production systems that increase profitability by 50%, while concurrently reducing leakage by 50%.

Projects under these programs will develop new livestock production systems for both grazing and mixed farming businesses. Both programs are in an establishment phase. Work carried out up to June

Developing an internationally competitive supply of our products

focused on developing research projects that will deliver real solutions and benefits.

The Sustainable Grazing of Saline Land program, in collaboration with AWI and LWA, is investigating new pasture species and grazing management strategies for saline affected lands. The program is developing more productive systems for salinised landscapes and reducing their environmental impact. Six research sites and 100 producer sites are now established across southern Australia.

Four new EDGENetwork natural resource management workshops, targeting management issues in a grazing business context, were developed and are now available. These include:

- weed removers pasture improvers
- healthy soils, healthy profits
- managing living systems
- profit from saline land

Animal health

A project to improve knowledge of the pathogenesis of bovine Johne's disease was contracted following discussions with Cattle Council of Australia and Animal Health Australia over a planned R&D program for this disease. The R&D program is aimed at improving the trading options for beef cattle producers.

A review of calf scours was completed and a subsequent project contracted. The aim of this project is to improve the advice given to farmers about disease prevention, diagnosis and management.

Improving beef production efficiency

Genetic trends in the major breeds are increasing, despite the setback to performance recording caused by the drought. This year our efforts were focused on developing the More Beef from Pastures program to be ready for launch in August 2004. This program is a 'whole of enterprise' approach to delivering on-farm R&D results. It brings together results from eight subject areas and delivers them in one practical manual (with CD version) tailored to a producer audience. Subject areas covered include:

- strategic direction
- tactical stock control
- pasture growth
- pasture utilisation

- cattle genetics
- weaner throughput
- herd health and welfare
- market specifications

The effectiveness of this package of information for producers will be measured and monitored.

Communication, monitoring and evaluation

Our delivery channels vary in an attempt to capture a broad audience and provide information in a format for maximum impact. Channels used through the year included technical manuals for producers and advisors, publications such as *Prograzier* and *tips & tools*, forums, demonstrations and training.

A technical manual and scientific papers published to deliver results from the Sustainable Grazing Systems project had a tremendous response. There was strong demand for the manual, *Towards Sustainable Grazing*, and scientific papers, published in a special edition of *Australian Journal of Experimental Agriculture*, had a high impact achieving a citation rate of 25 – well above the 4.39 average. This achievement was presented in the Higher Education section of *The Australian* (24 March) profiling the Sustainable Grazing Systems project.

Future

Much of our focus this year was on establishing collaborations and work plans to deliver greater impact and more integrated solutions to producers. Work in the Grain & Graze and the Dryland Salinity programs is now underway and we look forward to delivering real on-farm benefits.

Collaboration

The Grain & Graze program brings a new level of collaboration between government and statutory organisations to get the most out of the dollars invested. It also takes a broader approach addressing issues from both the catchment, as well as farming business level.

Highlight

The natural resource activities in the Southern Beef and Lamb, Sheepmeat and Goatmeat programs are focusing on 'win-win' solutions. These projects must provide productive solutions to environmental issues. This includes:

- wider use of adapted, productive perennials
- better grazing management to utilise feed resources and improve water use efficiency, leading to reduced leakage (recharge) and improved ground cover and soil health
- by improving productivity of the suitable land, freeing grazing pressure on degraded or sensitive areas

Well-managed productive animals on well-managed adaptive and productive pastures are good for productivity, great for our environment.

Animal welfare

An extensive animal welfare consultation process took place across Australia in late 2003 involving representatives from government, industry, research and animal welfare organisations. The consultation process provided valuable input into the animal welfare and animal health planning process for the next five years.

Post-graduate support

MLA funded 34 post-graduates from 23 research institutions to conduct research into livestock production for PhD or masters theses.

Lamb, sheepmeat and goatmeat

Objectives

- To increase productivity and sustainability among lamb, sheepmeat and goatmeat producers.

Outcomes

- LAMBPLAN database reached one million animals.
- Released *EDGEnetwork* modules focusing on improving lamb marking rates and published *Wean More Lambs* publication.
- Sheepmeat Eating Quality research completed, and a commercialisation options paper developed for industry consideration.

Industry impacts

- 80% of attendees at MLA's *Making More from Merinos* forums have changed their practices as a result of attending the forum.
- Messages to improve eating quality on-farm delivered to over 7,000 producers.
- Merino Genetic Services database now has over 500,000 sheep genetic data records held.

Natural resource management

There are a number of common goals and issues in the area of natural resource management and achieving sustainable production systems. On that basis investment in this area is shared with the Southern Beef program to leverage greater results for southern producers. All activities are jointly planned and managed to meet beef, lamb and sheepmeat outcomes. For more details see page 37.

Animal production and meat quality

Improving the genetic potential of the Australian sheep flock has been a clear focus of our genetic delivery programs. MLA's LAMBPLAN is a world-recognised system for determining the genetic merit of both terminal and maternal sires. This has led to significant improvements in carcase weight, compliance to market specifications and improved costs of production for lamb production. The LAMBPLAN database in 2004 exceeded one million animals making it the largest sheep database in the world.

Merino Genetic Services now has a database of over 500,000 sheep. Its key focus has been to provide genetic

information to traditional wool growers for non-wool traits of carcase, reproduction, fertility and internal parasite resistance.

MLA joined with Australian Wool Innovation in establishing the ground-breaking Australian Sheep Genetics Database. The project aims to deliver higher rates of genetic gain to both wool and lamb/sheepmeat producers, benefiting both industries. The database is designed to enable producers to compare animals from different flocks on genetic merit using data from a single consolidated database – a national genetic currency. This will provide a tool that assists in the identification and selection of specific traits across different flocks, and so allow tailoring for target markets.

Management solutions projects are identifying improved management systems for utilising superior animal genetics and pasture varieties to increase productivity and sustainability. These include research into intensive grazing systems ('TechnoGrazing') for sheep flocks in the New England region of New South Wales, and are showing very promising results in terms of dramatically reduced parasite burdens.

Developing an internationally competitive supply of our products

Annual ryegrass toxicity has been a key focus area – a review of the disease was completed and a subsequent project contracted. The project is targeted at increasing adoption of current knowledge and improving coordination of research and extension. The project will also identify the optimal use of a new ryegrass, promote the effectiveness and encourage a greater uptake of twist fungus, and implement an effective surveillance system for this disease.

Producer innovation and building human capacity

We developed and released new EDGENetwork modules throughout the year, particularly focusing on improving lamb marking rates. These were supported by the very popular publication, *Wean More Lambs*, and backed by new and existing R&D outcomes. Other EDGENetwork workshops for lamb and sheep producers continued substantial growth in producer participation.

Marketing, communication and monitoring

A comprehensive producer adoption survey was completed, and the findings have informed all subsequent project planning for R&D and adoption. The findings also helped in identifying targets for adoption of the key management practices known to improve productivity, profitability and sustainability.

A tracking survey to monitor adoption is now built into program plans, and is a key component of the Grain & Graze collaborative program.

Supply chain management

The MLA Prime Time and Making More from Merinos campaigns have been a great success, focusing on helping producers to make better breeding and management decisions and use pastures more effectively. Recommendations were disseminated through a series of 40 producer forums attracting over 3,000 participants. Surveys showed a very high level of satisfaction and confirmed that 80% of participants changed management practices as a result of attending a forum. Results also showed that participants were likely to tell others about the program, and many now intended to increase flock size – the key industry driver for the program.

Adoption of systems to improve the eating quality of lamb has commenced in supply chains that account for 70% of domestic consumption. Messages to improve eating quality on-farm have been delivered to 7,000 producers, and further research has commenced to quantify consumer acceptance of commercial cuts from lamb, hogget and mutton.

The ‘harvest year’ for Sheepmeat Eating Quality (SMEQ) research has been completed, and a commercialisation options paper was developed for industry consideration. Key outcomes of the program include recommendations for use of electrical stimulation in processing, which major processor and retailer groups have already indicated will be implemented. The target is set for 75-80% of lamb carcasses to receive electrical stimulation by the end of 2005. This will be a significant step forward in improving eating quality for lamb in domestic markets.

Other recommendations which have received industry endorsement include that:

- MLA now work with major supply chains to implement other SMEQ outcomes
- there be further research into eating quality drivers in commercial cuts (first round SMEQ focused on individual muscles)
- there be further research into the effects on eating quality outcomes of increased muscling in lambs.

Goats

Considerable consultation and planning with the goat industry R&D committee has led to the decision to contract a new extension coordinator, to focus on developing and promoting uptake of knowledge and tools for improved goat production.

Collaboration

There are a number of synergies between our programs that address the on-farm sector, therefore collaborations mentioned in Northern and Southern Beef programs apply also to this program. Additionally we have worked closely with the Sheepmeats Council of Australia on the MLA Prime Time campaign, which was also supported by Elders and Landmark.

Feedlots

Objectives

- To increase the productivity and profitability of Australian feedlots and ensure their long-term sustainability.

Outcomes

- Developed NIRS rapid tests, to assess nutritive value of grain.
- Developed an integrated pest management strategy for control of flies in feedlots.
- Developed a user-friendly interface to the Ausbeef decision support module.

Industry impacts

- **Odour impact criteria will provide a common base for the development and assessment of feedlots across Australia.**
- **An effective occupational health and safety management system for the Australian feedlot industry developed.**

Production efficiency

A new CSIRO-developed fumigant is being trialled for the devitalisation of grain and weed seeds. The trial of the fumigant that control the pathogens and insects in imported feed grain, is progressing well and appears likely to be successful in the laboratory environment. If so, it will be trialled commercially.

Commercial trials are being finalised for feeding high levels of molasses as an energy-dense alternative to grain. Trials indicate that industry uptake may be limited due to molasses shortages following rationalisation of the sugar industry, and problems in handling high levels of liquid molasses in equipment designed for dry rations.

MLA developed a range of rapid tests, using near infrared reflectance spectroscopy (NIRS) technology, to assess the nutritive value of grain, including energy and a range of specific nutrients, at the point of receipt.

During the year we also developed a user-friendly interface to the Ausbeef decision support module. The interface will be trialled by an industry nutritionist before it is made available to feedlot operators.

Plans for commercialising rapid tests for chemical contaminants, developed in collaboration with Grains Research and Development Corporation, are underway.

Meeting market requirements

The trial of a commercial enzyme treatment for the removal of feedlot dags was delayed due to the dry winter and the lack of suitable hides. Wetter conditions this winter will allow the work to be completed.

Business viability

Research is currently underway to develop industry-specific odour impact criteria so feedlots can estimate site-specific odour emissions. This will provide common criteria for the development and assessment of feedlots across Australia.

A project that documented the major fly species, abundance and extent of breeding of nuisance flies in feedlots was finalised and an integrated pest management strategy will be extended to industry. We also identified potential biological control agents and are investigating their application.

Currently, we are developing the commercialisation strategy for the two-in-one respiratory disease vaccine. The timelines for the process are estimated at four to seven years.

Investigation into cattle deaths that occurred under extreme heat conditions highlighted the need to incorporate research outcomes into a decision support module for industry operators. A risk assessment module will be available for industry before next summer.

Business skills

Work was completed on an effective occupational health and safety management system that addresses the state-by-state health and safety legislative requirements. It will be introduced to industry through a series of workshops to be held in the second half of 2004.

Future

A number of projects were completed this year and are on track for delivery to industry next year.

Collaboration

This program is developed in conjunction with the Australian Lot Feeders' Association.

Developing an internationally competitive supply of our products

Live exports

Objectives

- Maintain access and support trade to existing markets and improve conditions in potential new markets.
- Efficiently manage issues threatening the live trade and maintain key stakeholder support for the trade.
- Through R&D, reduce mortalities and improve animal welfare.

Outcomes

- Developed an animal handling education package for the Middle East.
- Significant program to eliminate poor animal welfare practices in Middle East and Asia began.
- Implemented key research outcomes to reduce disease in pre-embarkation facilities and mortalities due to heat stress.

Industry impacts

- Halved average cattle mortality rate.
- Maintained support for live trade by both major political parties.
- Provided heat stress model to meet regulatory requirement of government and continued trade from southern Australia.

Markets

Providing support to our markets is one way MLA works to maintain a competitive advantage in this sector. This year we provided market support in a number of ways.

In both the Middle East and Asia we worked to improve animal welfare and profitability in the live cattle trade through targeted after-sales technical and trade support.

In conjunction with the University of New England we developed an animal handling education package for the Middle East. It was successfully trialled in Jordan, and subsequently rolled out in Kuwait. In Egypt, we completed the upgrade of the Basateen abattoir, installing a new restraining box to be used for all Australian cattle processed at the abattoir. We also completed the re-design of MLA's restraining box for Asian abattoirs and trialled the box in Indonesia.

Progress was made in gaining access to Libya and Syria and we are optimistic that next year this will result in the development of trade to these two markets.

Trade with Saudi Arabia was suspended in August 2003 due to the Cormo Express incident, but continues to other Middle East ports.

Communication and issues management

The Cormo Express incident was the focus of all activities in support of the live sheep trade in the first half of the year. There was extensive media interest and coverage, however the fall-out from the incident has resulted in many positive reforms to the livestock export trade in 2004.

We have now completed the Independent Australian Livestock Export Standards review. It will provide input to the development of whole-of-chain national standards for the livestock trade, currently underway.

Other activities included developing a TAFE-style training school for retail butchers in Manila, being implemented in September 2004, and implementing a beef promotion campaign in the largest wet market in the Philippines – a first for the region.

Industry standards

During the year there was only one high mortality sheep shipment, the Cormo Express, and average sheep mortality levels fell from 1.24% in 2002 to 1.0% in 2003. The average mortality rate for cattle exported in 2003 fell to 0.11%, less than half the 2002 rate.

A heat stress model, developed from our R&D, now underpins all Middle East shipments and has been instrumental in reducing mortality rates. It has been upgraded once during the year to improve usability and will be further upgraded in 2004-05.

Future

Work will continue in Libya and Syria to establish new markets for the Australian industry. There will be significant reforms made in 2004-05 to further ensure the welfare of exported livestock.

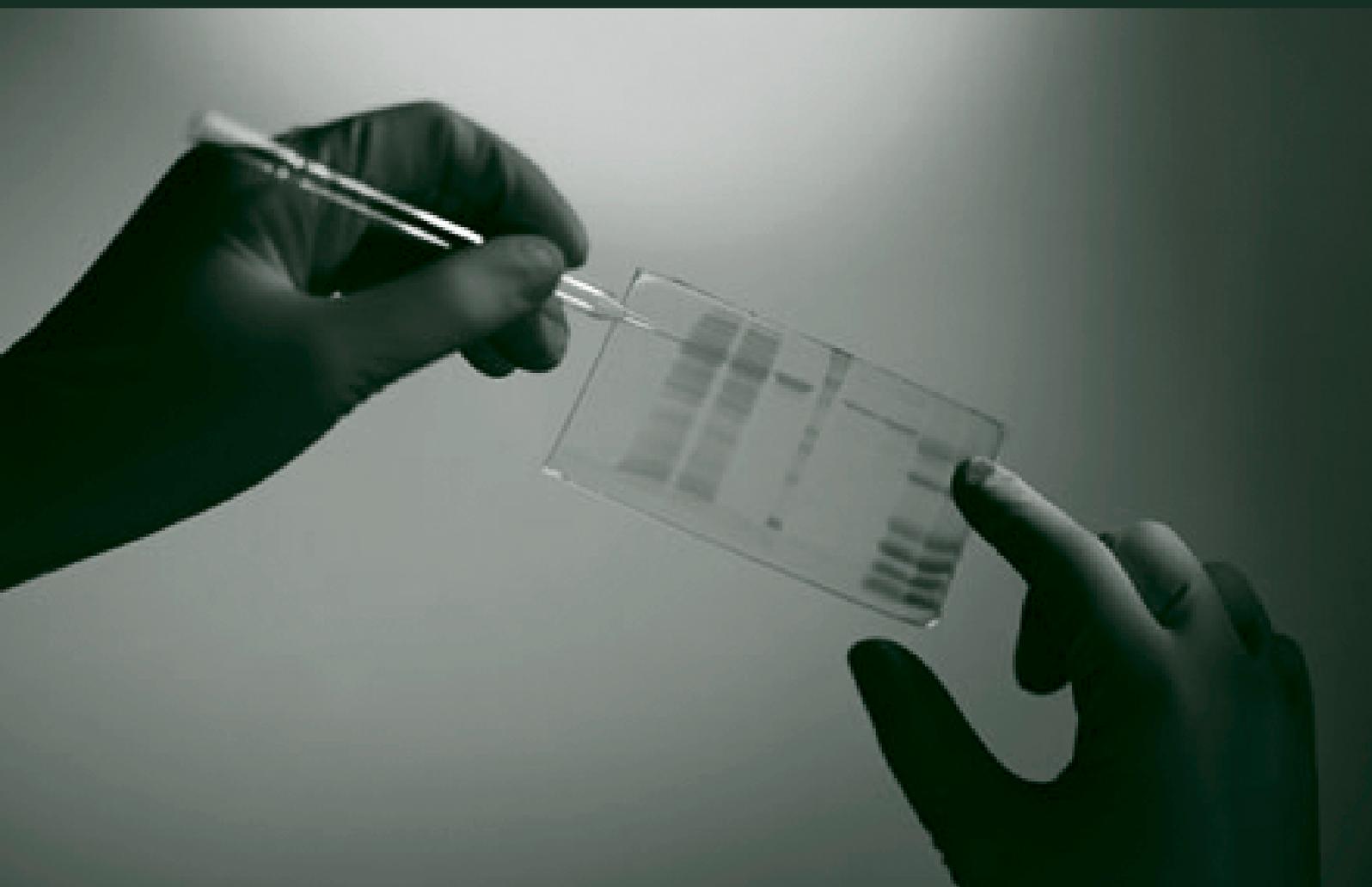
Collaboration

To ensure this substantial trade for Australia, MLA works closely with LiveCorp and government both in Australia and within each of our current and potential trading partners.

Strategically positioned research and development initiatives and partnerships are vital in ensuring the future growth and development of the red meat industry.

5

Other initiatives



Other initiatives

Goat marketing and research

The final report on the role of Boer goats and their crosses in Western Australia was completed and is now available through MLA publications.

A sub-committee of the Goat Industry Council of Australia was formed to oversee the implementation of a strategy for the development of the goat industry. The strategy will focus on increasing the supply of goats for both domestic and export markets.

Several major projects are currently being implemented and will be managed by a newly appointed national

goat industry development officer. These projects include:

- the production of a goat best practice manual to present the latest in scientific and industry knowledge in a practical format for producers
- co-investment with a major veterinary pharmaceutical company to register an effective drench for goats
- the development of MLA *EDGE* network courses that include goat specific information

Strategic research and development

Objectives

- Increase investment by industry and other partners in innovation and R&D.
- Initiate significant new science programs with potential to dramatically improve industry competitiveness.
- Co-invest with relevant bodies to reduce duplication and increase impact.

Outcomes

- Validated and released new beef tenderness marker.
- Established an information sharing agreement amongst two groups conducting R&D into Johne's disease.
- Released a prototype tool to assist producers in managing climate risk in southern Australian grazing systems.

Industry impacts

- **\$50m to be invested in genomics over five years.**
- **Provided information that formed an integral part of the national approach to future management of Johne's disease.**
- **Developed advanced meat electronics systems to significantly improve meat quality and increase processing efficiency.**

This year, significant improvements in identifying and approving new projects, combined with a reduced cycle time, resulted in considerable growth in this program.

Genomics

Sheep

A major genomics initiative with Australian Wool Innovation (AWI) commenced in September. This combined investment of \$30m over five years includes an additional 'in-kind' contribution of around \$20m from the other research organisations. The program will

investigate a range of areas including animal health and meat quality, and will continue MLA's world leading gene mapping.

Beef cattle

In conjunction with the Beef CRC, CSIRO and Genetic Solutions, we validated and released a new beef tenderness marker. Work continued on discovering new gene markers for marbling and a patent application for a new marbling marker was lodged in February.

Another project underway is the fine mapping of

chromosomes to find genes responsible for net feed efficiency.

Pasture plants

A major co-investment commenced with Dairy Australia and Geoffrey Gardiner Dairy Foundation. Research, conducted by CRC for Molecular Plant Breeding at La Trobe University, is investigating drought tolerance of perennial ryegrass.

Soil biology

This major research area focuses on the interaction between soil micro-organisms and plants to improve plant growth and increase sustainability of production systems. Co-investors include AWI and Grains Research and Development Corporation.

Research is also underway on a major project to develop new tests for soil organisms under perennial pastures.

Johne's disease

Half of the 28 ovine Johne's disease (OJD) studies commissioned are now complete. Major outcomes include the evaluation and registration of a vaccine and the development of management strategies to reduce infection rates.

We provided key information on the feasibility of disease eradication, the cost to producers and the role of other animal species in the spread of OJD. These outcomes have become an integral part of the national approach to future OJD management.

Importantly, we established an information sharing agreement amongst the groups conducting R&D on the development of tools for the early diagnosis of Johne's disease in sheep (University of Sydney) and cattle (CSIRO).

Parasitology

Work commenced on an intestinal parasite biology project to identify new therapeutic control targets, and eight projects are underway to identify new targets in internal parasites of sheep. Results will be used to develop new drugs and vaccines.

Other new science and support

We are continuing a preliminary project to determine the feasibility of livestock vaccination methods that could deliver vaccines through plants and/or water.

During the year we developed a tool to assist producers in managing climate risk in southern Australian grazing systems. A prototype was released in August 2004 and the final product release is anticipated for December 2005.

Post-graduate training

To encourage new talent, 10 post-graduate training and three overseas study awards were given this year.

MLA supports over 40 post-graduate students covering diverse aspects of science of value to the future development of our industry. Topics range from the nutritional value of meat foods, effect of production systems on the environment, plant improvement, animal health disease control and livestock genomics.

This year we hosted a post-graduate workshop for students to meet and work with MLA managers and increase their awareness of the scope of MLA's activities.

New generation process innovation

New advanced meat electronics systems have been developed to significantly improve meat quality post-slaughter and increase the efficiency of production.

Two major supermarket chains have included the new generation stimulation in their product specifications for lamb suppliers. To date, 26 plants have installed or are committed to installing the technologies.

A further three technologies are in the pre-commercial development stages – high frequency immobilisation, foetal blood recovery and advanced stimulation.

When completed, they will complement the current technologies and provide even greater meat quality and efficiency.

To provide further improvements, scientific determination of the electrophysiological parameters for all electronic technologies is continuing. The strategic science for the advanced stages of the program, in the fields of biochemistry and neurophysiology, is now underway.

Future

The long-term nature of strategic science sees many projects continuing over a number of years.

Collaboration

MLA works with a broad range of partners in the area of strategic science to leverage both intellectual capacity and investment dollars, and achieve common goals. Our partners come from government, industry, business and the research community, and through collaboration we strive to deliver real value to our stakeholders.

Other initiatives

Research and development partnerships

Objectives

- To significantly increase the level of enterprise investment in innovation in the red meat industry.
- To increase the innovation capability of individual enterprises and facilitate the development of an innovation culture across the industry.
- To gain quantifiable commercial returns to individual enterprises and ultimately to the industry.
- To increase innovations available to the industry.

Outcomes

- Projects were approved in all sectors of the red meat industry.
- 45% of companies participating in the program have more than one project underway.

Industry impacts

- **60 new projects approved with a total value of \$26.2m.**
- **Total expenditure of \$15.8m, \$7.9m of this invested by individual industry enterprises.**

MLA's fully-owned subsidiary, MLA Donor Company Limited, provides a vehicle for attracting commercial investment in innovation from individual enterprises. Since its inception in 1999, 164 projects have been approved in the R&D Partnership programs with a total portfolio in excess of \$74m.

Projects are providing benefits to the red meat industry as well as individual enterprises. These projects are complementing the outcomes of MLA's industry funded R&D programs in areas across the supply chain, including animal health, pasture plant breeding, processing automation, risk advisory services, bioactives and red meat product development.

A key aspect of our R&D Partnerships program is our approach to building innovation culture and capability across the whole industry. Commercialisation of project outcomes ensures benefits are passed on to industry.

Future

The program will continue to evolve and grow with support from enterprises across the whole industry.

Collaboration

- **In addition to the individual projects being undertaken with companies from across the red meat supply chain, MLA technical managers have been assisting individual enterprises to incorporate innovation into their business strategies.**
- **MLA has also initiated national and international collaborations with organisations, including Meat and Wool New Zealand, to facilitate the development of further benefits for the industry.**

6

Corporate services

A strong corporate services infrastructure provides support to staff working around the globe, and supports the effective delivery to industry of our portfolio of programs.



Corporate services

Each year, MLA's Corporate Services business unit provides a range of important services to ensure the timely and efficient delivery of support to the red meat industry. These services cover an integral range of activities that support the work of MLA, including financial, legal, human resources and information and technology services.

Risk management

As part of MLA's approach to risk management, our responsibilities in relation to occupational health and safety, legal and regulatory compliance are all monitored regularly. Insurance cover is maintained and reviewed annually to protect the organisation, our stakeholders and employees in the event of any claim or accident.

Two risk management projects were undertaken and completed – a review of foreign exchange risk and a review of billings and debtors. During the year, we commenced a risk assessment project to identify and assess our exposure to potential risks. The project is being carried out in conjunction with Ernst & Young.

The management team also supports the board and its Audit Committee in providing financial reports and establishing financial controls. For more details on the board committees, directors and directors' and officers' indemnification and insurance, see pages 51 to 59 in the Financial section.

Operational activities

Cost savings review

In 2002-03 a cost savings review was initiated to identify savings on overhead costs. To date the project has identified a substantial \$3.7m in savings. We will continue the practice of efficient cost management and are constantly looking for better, more efficient practices.

Information and technology

Our information and technology systems provide a vital support infrastructure for MLA's activities. In addition to providing support services, we seek to implement innovation through our projects.

This year has seen a number of significant improvements in our IT infrastructure. Most notably was moving all MLA's key stakeholders to a customer relationship management system, so that we can target communications more effectively. Over 30,000 contacts have now been put onto this system.

We also implemented a business intelligence system and rolled it out to the executive team. The system allows access to critical information to manage and monitor company financials, project financials, project milestones, objectives and metrics, as well as human resource information. This is a significant enabling tool for best practice management.

Our staff performance management system has been deployed online world-wide within MLA. All staff now create performance plans online, and these are monitored and reviewed with management over the year. The system was successfully used to assist in this year's annual employee reviews.

Library and information services

This year, we undertook a project to provide MLA staff with electronic access to our information. The eLibrary provides a centralised searchable repository of information including: R&D reports, MLA publications, library catalogue, a large selection of MLA's electronic files, CAB (Commonwealth Agricultural Bureau) abstracts and journals. Now that this information is online, it can be accessed and shared by staff world-wide.

A second innovation is the development of an electronic image library. We have now moved over 5,000 images into an electronic catalogue that is accessible world-wide. This has resulted in the ability to more readily share imagery and has reduced costs of rescanning images or purchasing new images.

Human resources

During the year, the Good to Great program continued to improve efficiency and effectiveness. Using a balanced scorecard approach, the program focuses on stakeholders, people, operations and industry impact.

Staff management

Encouraging staff to perform at their best, staff participated in the new performance management system that was implemented focusing on performance plans, competencies and behaviours to improve the skills of the individual and the performance of the organisation.

We have an ongoing commitment to provide a safe and healthy work environment and have conducted audits of our occupational health and safety systems with a WorkCover accredited representative.

Employer of Choice for Women

MLA successfully applied to the Equal Opportunity for

Women in the Workplace Agency (EOWA) and was awarded the Employer of Choice for Women for the second year running. MLA has a number of 'family-friendly' policies and offers flexible working practices.

Employee development

This year we launched a company-wide program aimed at improving our service. Training in business writing, conducting meetings, telephone and computer skills complemented the introduction of service standards to improve response times.

We launched a leadership program to leverage the skills of our human assets. The key aim is to attract and retain our staff and also to deliver benefits to industry. MLA is keen to motivate and develop high calibre employees who can deliver on our company and industry objectives. To achieve this, we provide a range of development opportunities linked to our business activities. These include secondments, training and memberships to professional associations. MLA also provides assistance for employees to further advance their skills and knowledge at university or TAFE through our External Education Assistance program.

MLA staff

Employee numbers (as at 30 June 2004)
 Total number of employees globally 220
 (Total number of full-time equivalent staff 213)
 Permanent employees 158
 Fixed-term employees 62

MLA staff profile

GENDER – 59% male, 41% female

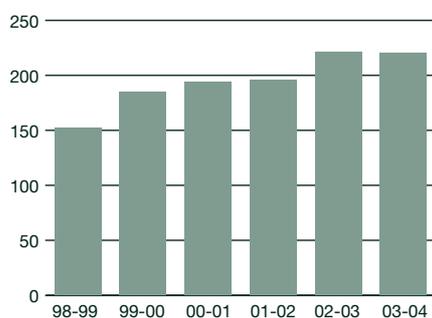
RURAL BACKGROUND

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

QUALIFICATIONS

97% of employees hold post secondary qualifications (eg diplomas, undergraduate, postgraduate degrees, etc).
 56% have qualifications in a rural discipline such as agricultural science or agricultural economics.

Staff numbers 1998-2004



Note: On 1 July 2002 MLA took over responsibility for the National Livestock Reporting Service

Executive team

The members of MLA's executive are experienced professionals from a range of disciplines. Together with their teams they bring a wealth of knowledge, skills and understanding to the industry and contribute to our philosophy of Good to Great.

Mark Spurr BBus ASA FAICD FCIS
 Managing director

Mr Spurr has extensive corporate experience in the international agri-food industry. He joined MLA in November 2002 following 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 USA. Prior to that Mr Spurr held executive positions in the food industry in Australia and South America. Mr Spurr is a director of AUS-MEAT Limited and of MLA Donor Company Limited.

Hugh Amoyal BBus MBA

General manager, international marketing
 (from April 2004)

Mr Amoyal has extensive sales and marketing experience gained in the consumer goods and professional products sectors. He has deployed successful demand creation strategies in food, foodservice and agricultural industries in Europe, the US, Asia and South America. He spent over 10 years with H.J. Heinz and Rothmans. More recently he held a global marketing role with Syngenta plc in the UK, setting the global marketing and product development strategy for a \$1 billion herbicide. Before joining MLA Mr Amoyal was general manager sales and marketing for the European and Asian businesses of Verticalnet, a software vendor. Mr Amoyal is responsible for promoting and growing demand for Australian red meat in our overseas markets.

Peter Barnard PhD Econ

General manager, economic planning and market services
 Previously manager of the Australian Meat and Live-stock Corporation's (AMLC) economics, market information and quota administration division. Dr Barnard has been a lecturer and research fellow at Adelaide and Macquarie Universities, a consultant to the Very Fast Train Project, and the National Farmers' Federation director for transport and telecommunications. He continues to serve on several academic, transport and agricultural industry bodies. Dr Barnard is responsible for forming links between MLA's activities in overseas markets and the Australian industry, delivering market support and research for these areas, and coordinating planning of MLA programs.

Corporate services

Allan Bloxsom

General manager, industry systems

Commenced his career in the Australian meat industry in 1969 with The Angliss Group of Companies and has held a number of senior positions within companies in the industry including The Mid Coast Meat Company, a large NSW beef processing company, and Hereford Prime Limited, Australia's largest private beef brand. Mr Bloxsom has also been AMLC's New York-based business development manager and MLA's regional manager, Europe. Mr Bloxsom is responsible for Meat Standards Australia, the National Livestock Identification Scheme, VIAscan Quality Assessment, on-farm quality assurance, national vendor declarations and SAFEMEAT coordination for MLA. Director of AUS-MEAT Limited.

Mike Hayward BSc (Ag) MCom

General manager, live exports (from April 2004)

Previously AMLC's regional manager, Japan. Mr Hayward taught farm management and agriculture policy at Queensland University before spending three years with the NSW Department of Agriculture as a research economist. He has worked in the meat industry since 1979 when he joined AMLC and has held a number of senior positions with the organisation. Mr Hayward is responsible for MLA's activities in support of livestock export trade.

Christine Raward BSc MHA MAICD

General manager, client and innovation services

Previously held senior executive and consulting positions in a number of major manufacturing and financial services companies and has worked with the red meat industry for the past 10 years. She is also general manager responsible for MLA Donor Company Limited. Ms Raward is responsible for MLA's \$20m off-farm R&D portfolio, which includes food safety and microbiological research, processing automation technology, off-farm environmental research, value adding and product development, biotechnology and supply chain management.

Dr Reuben Rose DVSc PhD FRCVS MACVSc

General manager, livestock production innovation

Reuben Rose grew up on a sheep and cattle property in the Snowy Mountains and graduated from the

University of Sydney Veterinary School in 1972. After periods in large animal and mixed veterinary practice in New Zealand and Australia, he completed a doctor of philosophy degree in 1980 and was awarded a fellowship of the Royal College of Veterinary Surgeons in 1985. He has had academic appointments at research institutes in the UK and France as well as appointments as a visiting professor at Washington State University and the University of Florida. He was awarded a doctor of veterinary science degree in 1990 by the University of Sydney for his distinguished contribution to research. Dr Rose is responsible for MLA's on-farm R&D portfolio.

David Thomason BBus

General manager, marketing

Joined MLA in 1998. Previously worked for over 30 years in sales and marketing roles within the food industry, initially with Cottee's, where he took the company to market leadership in their jam and cordials businesses. At George Weston Foods, he was responsible for marketing in the Tip Top bread and biscuit and cake divisions. In both companies, he championed consumer-focused marketing with quality improvements, new product development and impactful promotion.

Mr Thomason is responsible for strategies to grow consumer demand for Australian beef and sheepmeat, identifying and developing nutritional opportunities for red meat, and improving retail promotion and education.

Geoffrey Walters BBus MBA FCPA AAICD

General manager, corporate services

Joined MLA in 1998. Previously senior vice president and chief financial officer for Alexander & Alexander Inc, a major US-based international insurance brokerage firm, and finance director for Alexander Stenhouse Limited, with responsibility for the Asia Pacific region. He has 30 years' experience in strategy development, financial services, administration and operations management and has held senior management positions in the meat and livestock, insurance and motor vehicle industries. Mr Walters is responsible for MLA's finance, IT, human resources, industry affairs, communications and legal divisions. Director of MLA Donor Company Limited.

Financial report

FOR THE YEAR ENDED 30 JUNE 2004

**MEAT & LIVESTOCK
AUSTRALIA LIMITED**

ABN 39 081 678 364

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Directors' report

The board of directors of Meat & Livestock Australia Limited (MLA) has pleasure in submitting its report in respect of the financial year ended 30 June 2004.

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. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

David Charles Crombie BEc

Chairman

Mr Crombie is chairman of the Australian Rural Leadership Foundation and is a director of GRM International, an agricultural management company, and FKP Limited, a publicly listed company. He was previously managing director of Queensland and Northern Territory Pastoral Company and served on the board of Grainco. He is on the board of Queensland Rugby and was on the board of Australian Rugby. He operates family beef cattle properties in southern Queensland. Mr Crombie is chairman of the Selection Committee.

Mark Edward Spurr BBus ASA FCIS FAICD

Managing director

Mr Spurr has extensive corporate experience in the international agri-food industry. He joined MLA in November 2002 following 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 USA. Prior to that Mr Spurr held executive positions in the food industry in Australia and South America. Mr Spurr is a director of AUS-MEAT Limited and of MLA Donor Company Limited.

Diana Gwendoline Day BA (Hons) Dip Ed PhD FAICD Director (elected 19 November 2003)

Dr Day is Associate Professor, Academic Development of Indigenous academic staff at the University of Sydney. Previous roles include senior policy adviser to the NSW Departments of Water Resources and of Land and Water Conservation and Senior Research Fellow in Environmental Management at the University of Newcastle. She has researched, consulted and developed public policy in aspects of agri-business, natural and water resources policy and management and regional environmental planning. She is a director of the Sugar Research and Development Corporation. Dr Day is extensively published in over 100 national and international publications and four books. Dr Day is a director of MLA Donor Company Limited and a member of the Membership Committee.

Vicki Coryn Hardwick BEd PostGrad Ma/Eth

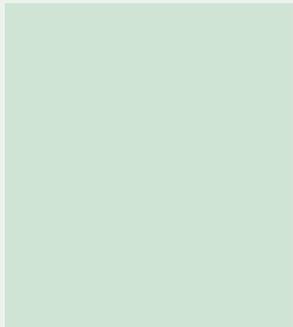
Director

Mrs Hardwick is a co-founder of the Hardwick's group of companies, which was established in 1973. Mrs Hardwick is a director of Flockcare where she acts as the meat processing industry representative 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 also a sub-committee member of the Victorian Food Industry Training Board and an industry representative on the Victorian Workcover Meat Industry Working Party. Mrs Hardwick is a member of the Remuneration Committee.

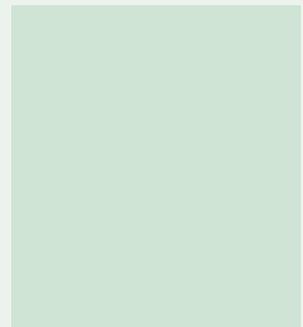
Arthur Macedon (Don) Heatley

Director

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 Audit Committee and a member of the Selection Committee.



- 1 David Crombie
- 2 Mark Spurr
- 3 Diana Day
- 4 Vicki Hardwick
- 5 Don Heatley
- 6 Christopher Hudson
- 7 Wayne Jackson
- 8 Peter Milliken
- 9 Peter Trefort
- 10 Paul Troja
- 11 Ian Watson



Directors' report

Christopher Burgoyne Hudson BSc (Hons) MSc PhD
Director

Professor Hudson is a director of Food Science Australia and a board member of Food Standards Australia New Zealand. He is chairman of the advisory board for the Australian Food Safety Centre, a board member of the National Centre of Excellence in Functional Foods and he holds professorial appointments at the Universities of Queensland and Wollongong. His interests are in the development and management of science and technology programs within the agricultural and food sectors. He is a member of the Nutrition Committee of the Australian Academy of Science and 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 and Selection Committees.

Wayne Robert Jackson BEc FCPA FAICD
Director

Mr Jackson is consultant – management and strategy at Minter Ellison Lawyers (SA/NT). He is a former chief executive officer and commissioner of the Australian Football League. Previously he has worked in several positions including managing director of Thomas Hardy & Sons Pty Limited, business development manager and director of BRL Hardy Limited and managing director of the South Australian Brewing Company Pty Limited. Mr Jackson has completed a management development program at the Harvard Business School. His farming interests span 22 years and he produces vealers and prime lambs on his property at Willalooka in South Australia. Mr Jackson is chairman of the Remuneration Committee and a member of the Audit Committee.

Peter Robert Milliken BSc (Ag)
Director

Mr Milliken is the managing director of a grazing enterprise producing prime lambs at Hay, NSW. He has been involved in natural resource management as the past chairman of the Murrumbidgee Catchment Management Board and as a past member of the Community Advisory Committee for the Murray Darling Basin Ministerial Council. He has served in local government and participated in the Australian Rural Leadership Program. He was also active in the formation of the EDGENetwork, a producer training program that aims to improve livestock enterprises. Mr Milliken is chairman of the Membership Committee and a member of the Audit Committee.

Peter James Trefort
Director (elected 19 November 2003)

Mr Trefort manages his family's property at Narrogin in Western Australia. He has more than 40 years' experience in sheep and cattle production as well as management across the supply chain. He has worked extensively developing on-farm and processing R&D strategy with the Department of Agriculture (WA), University of WA and Murdoch University (WA). He has been successful in developing and commercialising an innovative new range of lamb cuts to extend markets both domestically and internationally. Mr Trefort is a director of Hillside Meats, Elderstone Nominees Pty Ltd, WA Meat Industry Authority, Narrogin Agricultural College Advisory Council, CY O'Connor College of TAFE and WA Q Lamb, and chairman of WA Agricultural College Combined Advisory Councils. Mr Trefort is also a respected conference speaker and media commentator. Mr Trefort is a member of the Membership Committee.

Paul Anthony Troja

Director (elected 19 November 2003)

Mr Troja is general manager and a director of Rockdale Beef Pty Limited Australia. Previously he has held in various roles for The Angliss Group where he developed a solid understanding of the industry and the important issues of meat quality and consumer perceptions. He also worked for the Australian Meat & Livestock Corporation (AMLC) both in Australia and Asia. During this time he developed regional marketing strategies for the north Asia region which are still used today. He also contributed to the development of AMLC's quality assurance training accreditation courses for the processing sector, and the Handbook of Australian Meat, which remain industry standards. Mr Troja negotiated one of NSW's first registered employee enterprise agreements in the meat industry. Mr Troja is a member of the Audit Committee.

Ian Douglas Stuart Watson

Director

Mr Watson has a lifetime of experience as a successful seedstock and commercial producer in Victoria and NSW and is recognised as an international judge. He established a Romney sheep stud in Victoria which produced prime lamb sires that were sold nationally. He is best known for the Injemira Hereford stud, which was formed in 1968 and sold as a business during 2003. He is past chairman of the Australian Romney Association, Australian Hereford Society and Hereford Prime, a leading independent beef brand. He also consults with three leading NSW pastoral companies. In 2003, the Beef Improvement Association awarded Mr Watson the Howard Yelland Award for his contribution to the beef industry.

Hardinge Guy Fitzhardinge BAg Econ MAp Sc

Director (retired 19 November 2003)

Mr Fitzhardinge is the manager of a family company running cattle and sheep on a number of properties in central NSW. He is a director of the Bush Heritage Trust, a member of the advisory board of the Australian Biological Research Studies Unit and an advisor for the WWF Threatened Species Network. He is a former director of the Meat Research Corporation and has a particular interest in research and development, sustainable agriculture and natural resource management. Prior to his retirement he was chairman of the Remuneration Committee.

Patrick Hoyle Musgrave BA (Hons)

Director (retired 19 November 2003)

Mr Musgrave has held senior management positions at both Arnott's Biscuits Ltd and Nestlé Australia Ltd, and he brings strong business skills and corporate governance expertise to the board. He is currently chairman of the Dairy Adjustment Authority and a former director and acting chairman of the Australian Meat and Live-stock Corporation. Prior to his retirement he was chairman of the Audit Committee and director of MLA Donor Company Limited.

Directors' report

CORPORATE GOVERNANCE STATEMENT

The governance of MLA involves members, directors, management and employees. It is affected by regulatory requirements in various countries as well as the interests and expectations of, and relationships with, other parties including peak councils, government, industry partners and communities.

The directors of MLA acknowledge that corporate governance is the system by which the company is controlled. In accordance with normal corporate practices, members have delegated many of their responsibilities as owners to the directors who oversee the management of the business on their behalf. Directors are accountable to their members and will actively seek member participation to make that accountability effective.

Directors will use their best efforts to ensure that the company is properly managed and constantly improved so as to protect and enhance members' interests and to meet the company's obligations to all parties with which the company interacts – its stakeholders. Directors believe that the essence of any system of good corporate governance is to allow the board and management the freedom to drive their company forward but to exercise that freedom within a framework of effective accountability.

Responsibilities and functions of the board

The relationship between management and the board is a partnership that is crucial to the company's long-term success. Each has functions that should be clearly defined and understood. The managing director is responsible to the board for the day-to-day management of the company and is accountable for the achievement of company objectives. The board gives direction and exercises judgement in setting the company's objectives and monitoring their implementation.

In essence, the board is concerned with:

- developing and setting the company's strategic direction in conjunction with management, peak councils and industry

- arrangements for the governance of the company including the:
 - appropriateness of organisational arrangements and structures
 - quality of the executive team and decision-making processes
 - adequacy of internal controls and processes
- the overview of performance against targets and objectives
- reporting to stakeholders on the direction, governance and performance of the company

Particular matters that are dealt with by the board include significant investments, capital and funding proposals, senior appointments, executive remuneration and succession plans, financial results, performance against plans, and issues relating to internal controls and the management of risk.

Independent professional advice

After consultation with the chairman, directors may obtain independent professional advice on matters arising in the course of their board duties. Such advice would be made available to all directors.

Committees of the board

To assist the directors to fulfil their corporate governance obligations, four permanent committees have been formed each governed by a separate charter:

- Audit Committee
- Remuneration Committee
- Membership Committee
- Selection Committee

Selecting committee members

The Audit, Remuneration and Membership Committees each have a maximum of four members who will be appointed by the board. The board nominates one of the committee members to be chairman. The chairman of each committee reports on the committee's activities to each board meeting. The majority of the members of the Audit, Remuneration and Membership Committees are non-executive directors. Membership of the Selection Committee is outlined below.

Term of office

The board can remove and replace any member of a committee (other than the Selection Committee) at any time, however, the expectation is that committee members would serve an initial period of three years.

Evaluation of board committees

Each committee periodically conducts an assessment of its work by reference to its charter. The assessment will detail any actions necessary as a result of the assessment. A report on the assessment will be given to the full board by the committee chairman.

Audit Committee

Its primary function is to review the financial information that will be provided to members and others, the systems of risk management and internal controls that management and the board have established, and the audit process including the independence of the auditor. It also oversees and approves any other special audit activities. It currently consists of four independent directors, with Mr Heatley as chairman.

Membership Committee

Its primary function is reviewing applications for membership of the company and making recommendations on the management of the membership program to the board. The committee also reviews the policies and systems in place for membership recruitment and management to ensure they are appropriate and consistent with company objectives. It currently consists of three independent directors, with Mr Milliken as chairman.

Remuneration Committee

Its primary function is reviewing the total level of remuneration paid to the managing director, other executives and staff to ensure it is consistent with the duties and responsibilities of the position, the job performance of the individual concerned and the general marketplace. The committee also reviews the policies and systems in place for managing remuneration to ensure they are appropriate and consistent with company objectives. It currently consists of three independent directors, with Mr Jackson as chairman.

Selection Committee

Its primary function is reporting to the members of the company on the suitability of candidates for re-election or election to the office of director at general meetings. The normal term for a director is three years, after which they may re-apply but are subject to the same selection process as all new candidates. The Selection Committee consists of:

- ➔ three persons elected by producer members
- ➔ three persons appointed by peak councils
- ➔ three directors, one of whom is to be the chairman of directors unless he or she is a candidate for re-election

The members of the Selection Committee elected by producer members referred to above are to consist of:

- ➔ one person elected by cattle producers
- ➔ one person elected by sheep producers
- ➔ one person elected by lot feeders

and they are to be elected by the relevant producers at annual general meetings. The current chairman is Mr Crombie.

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 Spurr as chairman.

Directors' report

DIRECTORS MEETINGS

During the year the company held 11 meetings of directors. The names of directors and members of committees of the board are set out above. 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
D C Crombie	11	–	–	–	1(1)
M E Spurr	11	–	–	–	–
D G Day	5(6)	–	1(2)	–	–
H G Fitzhardinge	5(5)	–	–	1(1)	–
V C Hardwick	11	–	–	3	–
A M Heatley	11	2	–	–	3
C B Hudson	11	–	–	2(2)	1(1)
W R Jackson	11	2	–	3	–
P R Milliken	11	1(1)	5	–	2(2)
P H Musgrave	5(5)	1(1)	–	–	–
P J Trefort	6(6)	–	2(2)	–	–
P A Troja	6(6)	1(1)	–	–	–
I D S Watson	11	–	3(3)	–	2(2)

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.

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

REVIEW AND RESULTS OF OPERATIONS

Operating result for the period

The consolidated surplus of the consolidated entity for the financial year was \$6,066,000 (2003: \$6,484,000).

Group overview

The consolidated entity earned total revenue of \$136,519,000 (2003: \$123,578,000) which is composed of the following:

- transaction levies \$71,369,000 (2003: \$69,171,000)
- research and development matching grants \$32,779,000 (2003: \$26,648,000)
- other income \$32,371,000 (2003: \$27,759,000)

Total income received/receivable was more than total expenditure, which resulted in an operating surplus of \$6,066,000 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.

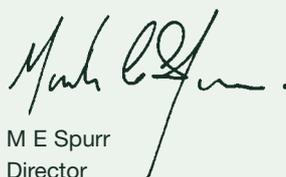
REGISTERED OFFICE

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.



D C Crombie
Director



M E Spurr
Director

Sydney
16 September 2004

Statement of financial performance

Year ended 30 June 2004

	Notes	Consolidated		Parent	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
REVENUES FROM ORDINARY ACTIVITIES	2	136,519	123,578	136,519	123,611
EXPENDITURE					
Building demand		42,700	47,999	42,700	47,999
Guaranteeing integrity		15,826	13,039	15,826	13,039
Providing infrastructure		10,229	10,426	10,229	10,426
Developing supply		31,617	25,472	31,617	25,472
R&D partnerships		15,781	7,128	15,781	7,128
Corporate services		7,272	7,560	7,272	7,560
Strategic R&D		6,128	4,454	6,128	4,454
Other		900	1,016	900	1,016
Total expenditure		130,453	117,094	130,453	117,094
NET SURPLUS FROM ORDINARY ACTIVITIES	5, 16	6,066	6,484	6,066	6,517
TOTAL CHANGE IN MEMBERS' FUNDS	1(q)	6,066	6,484	6,066	6,517

The accompanying notes form an integral part of this Statement of financial performance.

Statement of financial position

As at 30 June 2004

	Notes	Consolidated		Parent	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
CURRENT ASSETS					
Cash assets	25(a)	34,293	28,086	34,293	28,086
Receivables	6	28,923	24,348	28,923	24,348
Other	7	1,564	3,558	1,564	3,558
TOTAL CURRENT ASSETS		64,780	55,992	64,780	55,992
NON-CURRENT ASSETS					
Receivables	8	1,570	–	1,570	–
Investment accounted for using the equity-method	9	–	–	–	–
Other financial asset	10	–	–	–	–
Property, plant and equipment	11	1,401	2,457	1,401	2,457
TOTAL NON-CURRENT ASSETS		2,971	2,457	2,971	2,457
TOTAL ASSETS		67,751	58,449	67,751	58,449
CURRENT LIABILITIES					
Payables	12	17,867	14,599	17,867	14,599
Provisions	13	3,692	2,993	3,692	2,993
Other liabilities	14	2,472	3,974	2,472	3,974
TOTAL CURRENT LIABILITIES		24,031	21,566	24,031	21,566
NON-CURRENT LIABILITIES					
Provisions	15	1,335	564	1,335	564
TOTAL NON-CURRENT LIABILITIES		1,335	564	1,335	564
TOTAL LIABILITIES		25,366	22,130	25,366	22,130
NET ASSETS		42,385	36,319	42,385	36,319
EQUITY – MEMBERS’ FUNDS					
Contributed equity	28	9,031	9,031	9,031	9,031
Retained surplus	16	33,354	27,288	33,354	27,288
TOTAL EQUITY – MEMBERS’ FUNDS		42,385	36,319	42,385	36,319

The accompanying notes form an integral part of this Statement of financial position.

Statement of cash flows

Year ended 30 June 2004

	Notes	Consolidated		Parent	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Levies collected		69,878	71,454	69,878	71,454
Research and development matching grants		33,997	23,067	33,997	23,067
Receipts from subsidiary		–	–	5,567	3,937
Receipts from processors and live exporters		11,749	12,194	11,749	12,194
Other receipts		13,627	13,342	7,939	9,507
Interest received		1,596	1,348	1,569	1,334
Payments to suppliers and employees		(124,316)	(115,518)	(124,168)	(115,518)
Net cash flows from operating activities	25(b)	6,531	5,887	6,531	5,975
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from disposal of property, plant and equipment		128	13	128	13
Purchase of property, plant and equipment		(600)	(786)	(600)	(786)
Net cash flows used in investing activities		(472)	(773)	(472)	(773)
Net increase in cash held		6,059	5,114	6,059	5,202
Add opening cash brought forward		28,086	23,335	28,086	23,247
Exchange rate adjustments on cash balances		148	(363)	148	(363)
CLOSING CASH CARRIED FORWARD	25(a)	34,293	28,086	34,293	28,086

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

Notes to the financial statements

30 June 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting

The financial statements have been prepared as a general purpose financial report, which complies with the requirements of the Corporations Act 2001, Australian Accounting Standards and Urgent Issues Consensus Views and other authority pronouncements of the AASB. The financial statements have also been prepared in accordance with the historical cost convention and do not take account of changes in either the general purchasing power of the domestic dollar or in the prices of specific assets.

b) Change in accounting policy

The accounting policies adopted are consistent with those of the previous year.

c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Meat & Livestock Australia Limited (the "Company"), and all entities that Meat & Livestock Australia Limited controlled from time to time during the year and at balance date.

The financial statements of subsidiaries 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) Foreign currencies

TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS

Foreign currency items are translated to Australian currency on the following basis:

- transactions are converted at exchange rates approximating those in effect at the date of each transaction
- amounts payable and receivable are translated at the average of the buy and sell rates available on the close of business at balance date

Exchange differences relating to monetary items are included in the Statement of financial performance, as exchange gains or losses, in the period when the exchange rates change. Where the exchange difference relates to a transaction intended to hedge the purchase of goods or services, the exchange difference is deferred until the period when the purchase is incurred.

e) 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.

Bank overdrafts are carried at the principal amount. Interest is charged as an expense as it is incurred.

f) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due.

Interest is taken up as income on an accrual basis.

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

Notes to the financial statements

30 June 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) 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 the 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 Statement of financial position.

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

h) 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, Commonwealth Government grants, processor and live exporter contributions are recognised as revenue to the extent that the expenditure has been incurred

i) Financial instruments included in assets

Bank deposits and bills of exchange are carried at cost. Interest revenue is recognised on an effective yield basis.

j) Recoverable amounts of non-current assets

Non current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where carrying values exceed this, assets are written down. All non-current assets are reviewed at least annually to determine whether their carrying amounts require write down to recoverable amounts.

k) 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.

l) Property, plant and equipment

COST

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

Notes to the financial statements

30 June 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Property, plant and equipment (continued)

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

m) Payables

Liabilities for trade creditors and other amounts are carried at cost, which is the fair value of consideration to be paid in the future for goods and services received.

These amounts represent liabilities for non-cancellable contract commitments, or goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. These amounts are unsecured and will be paid when due.

n) Unearned income

Amount represents income received prior to completion of committed programs.

o) 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, and long service leave.

No provision is made for non-vesting sick leave as the anticipated pattern of future sick leave taken indicates that accumulated non-vesting leave will never be paid.

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

All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to government securities, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories:

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

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

p) Provisions

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 over the five-year lease term.

q) Associated entities

Interests in associated entities are included in non-current assets at the lower of the equity accounted amount and recoverable amount. Detailed equity accounting information concerning the consolidated entity's material interests in associated entities is provided in Note 9.

r) Statement of financial performance

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

s) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

Notes to the financial statements

30 June 2004

	Notes	Consolidated		Parent	
		2004	2003	2004	2003
		\$000	\$000	\$000	\$000
2. REVENUE FROM ORDINARY ACTIVITIES					
Revenues from operating activities					
Transaction levies	3	71,369	69,171	71,369	69,171
R&D matching grants		32,779	26,648	32,779	26,648
Other income	4	29,449	25,912	29,476	25,959
Total revenues from operating activities		133,597	121,731	133,624	121,778
Revenues from non-operating activities					
Bank interest		1,660	1,354	1,633	1,340
Proceeds from sale of VIAscan and related property, plant and equipment	19	1,236	480	1,236	480
Proceeds from disposal of other property, plant and equipment		26	13	26	13
Total revenues from non-operating activities		2,922	1,847	2,895	1,833
Total revenues from ordinary activities		136,519	123,578	136,519	123,611

3. TRANSACTION LEVIES

Transaction levies:					
- Grainfed cattle		4,412	4,598	4,412	4,598
- Grassfed cattle		38,509	37,565	38,509	37,565
- Lambs		22,968	22,424	22,968	22,424
- Sheep		3,390	4,158	3,390	4,158
- Goats		392	426	392	426
- Cormo Express recovery (a)		1,698	-	1,698	-
Total transaction levies	2	71,369	69,171	71,369	69,171

(a) A levy on live exports was introduced by the Commonwealth Government to recover costs incurred on the Cormo Express live export incident. The costs incurred by MLA covered fodder, vaccines and the services of stockmen and a veterinarian. As the amount is fixed and has been confirmed in writing by the Commonwealth Government, the revenue was recognised during the year with a corresponding receivable balance (refer Notes 6 and 8). This amount was discounted to take into account the expected receipt of the levy over the next four years. The interest component will then be recognised when the actual levies are received.

Notes to the financial statements

30 June 2004

	Notes	Consolidated		Parent	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
4. OTHER INCOME					
Processor contributions		10,290	12,037	10,290	12,037
Live exporter contributions		1,377	1,215	1,377	1,215
Co-operative funding		2,606	383	2,606	383
R&D partnership income		8,333	3,902	2,793	67
Income from subsidiary	24(c)	–	–	5,567	3,882
Commonwealth Government grants		2,100	4,285	2,100	4,285
Other		4,743	4,090	4,743	4,090
Total other income	2	29,449	25,912	29,476	25,959
5. EXPENSES AND LOSSES (GAINS)					
Depreciation of non-current assets					
Leasehold improvements		202	320	202	320
Plant and equipment		765	884	765	884
Furniture and fittings		27	22	27	22
Total depreciation of non-current assets		994	1,226	994	1,226
Net loss/(gain) on disposal of property, plant and equipment					
		197	(4)	197	(4)
Bad and doubtful debts – trade debtors		61	129	61	129
Operating lease rentals		2,407	2,925	2,407	2,925
Provision for employee entitlements		748	593	748	593
Net foreign exchange loss		2,244	2,385	2,244	2,385
6. RECEIVABLES (CURRENT)					
Trade debtors		10,435	6,606	10,435	6,606
Provision for doubtful debts		(73)	(129)	(73)	(129)
Trade debtors, net		10,362	6,477	10,362	6,477
Accrued revenue					
– Levies		4,874	5,080	4,874	5,080
– R&D matching grants		10,808	8,789	10,808	8,789
– Cormo Express recovery		462	–	462	–
– Other		2,417	4,002	2,417	4,002
		18,561	17,871	18,561	17,871
Total current receivables, net		28,923	24,348	28,923	24,348

Trade debtors are non-interest bearing and generally on 30-day terms.

Notes to the financial statements

30 June 2004

		Consolidated		Parent	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
7. OTHER CURRENT ASSETS					
Deferred hedge costs on forward contracts		149	496	149	496
Deferred loss on foreign currency contracts	29(a)	-	1,877	-	1,877
		149	2,373	149	2,373
Deferred option premiums	29(a)	252	-	252	-
Unrealised loss on options	29(a)	140	-	140	-
		392	-	392	-
Prepayments		730	935	730	935
Deposits		254	235	254	235
Staff advances		39	15	39	15
Total other current assets		1,564	3,558	1,564	3,558

8. RECEIVABLES (NON-CURRENT)

Accrued revenue					
- VIAscan sale		334	-	334	-
- Cormo Express recovery		1,236	-	1,236	-
Total non-current receivables		1,570	-	1,570	-

9. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

Interest in associate		-	-	-	-
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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 MLA and Australian Meat Processor Corporation Limited.

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

MLA has a continuing commitment to support AUS-MEAT Limited. The budgeted contribution for the financial year ending 30 June 2005 is \$650,000 (2004 actual: \$650,000).

	AUS-MEAT Limited	
	2004 \$000	2003 \$000
Share of associate result		
Share of operating surplus	6	2
Accumulated deficit at beginning of the year	(236)	(238)
Accumulated deficit at end of the year	(230)	(236)

Notes to the financial statements

30 June 2004

9. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD (continued)

	AUS-MEAT Limited	
	2004 \$000	2003 \$000
Financial summary of associated entity		
Total assets	5,794	5,526
Total liabilities	1,190	906
Net assets	4,604	4,620

Investment in AUS-MEAT Limited has been taken up at nil value (2003: nil). AUS-MEAT Limited is limited by guarantee, the cost of the investment is nil (2003: nil) and there is no entitlement to share of result and net assets.

	Notes	Consolidated		Parent	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000

10. OTHER FINANCIAL ASSET

Interest in subsidiary		-	-	-	-
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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.

11. PROPERTY, PLANT AND EQUIPMENT

Plant and equipment

At cost		3,363	4,224	3,363	4,224
Accumulated depreciation		(2,161)	(2,167)	(2,161)	(2,167)
Total plant and equipment	11 (a)	1,202	2,057	1,202	2,057

Furniture and fittings

At cost		237	217	237	217
Accumulated depreciation		(157)	(135)	(157)	(135)
Total furniture and fittings	11 (a)	80	82	80	82

Leasehold improvements

At cost		2,974	2,970	2,974	2,970
Accumulated depreciation		(2,855)	(2,652)	(2,855)	(2,652)
Total leasehold improvements	11 (a)	119	318	119	318

Total property, plant and equipment

Cost		6,574	7,411	6,574	7,411
Accumulated depreciation		(5,173)	(4,954)	(5,173)	(4,954)
Total written down value		1,401	2,457	1,401	2,457

Notes to the financial statements

30 June 2004

	Consolidated		Parent	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
11. PROPERTY, PLANT AND EQUIPMENT (continued)				
(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	2,057	2,287	2,057	2,287
Additions	609	683	609	683
Disposals	(700)	(29)	(700)	(29)
Depreciation expense	(764)	(884)	(764)	(884)
	1,202	2,057	1,202	2,057
Furniture and fittings				
Carrying amount at beginning	82	81	82	81
Additions	25	25	25	25
Disposals	–	(2)	–	(2)
Depreciation expense	(27)	(22)	(27)	(22)
	80	82	80	82
Leasehold improvements				
Carrying amount at beginning	318	597	318	597
Additions	4	41	4	41
Disposals	–	–	–	–
Depreciation expense	(203)	(320)	(203)	(320)
	119	318	119	318
12. PAYABLES (CURRENT)				
Accrued R&D expenditure	14,849	8,939	14,849	8,939
Other creditors and accruals (a)	3,018	5,660	3,018	5,660
Total current payables	17,867	14,599	17,867	14,599
(a) Other creditors and accruals include balances that are denominated in foreign currency and these balances have been separately disclosed in Note 17.				
13. PROVISIONS (CURRENT)				
Employee entitlements (refer note 18)	3,504	2,993	3,504	2,993
Rent-free provision	188	–	188	–
Total current provisions	3,692	2,993	3,692	2,993

Notes to the financial statements

30 June 2004

	Notes	Consolidated		Parent	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
14. OTHER LIABILITIES (CURRENT)					
Net foreign currency contracts payable		139	2,373	139	2,373
Deferred gain on foreign currency contracts	29(a)	10	–	10	–
		149	2,373	149	2,373
Unearned income		1,627	1,501	1,627	1,501
Goods and services tax		562	56	562	56
Other		134	44	134	44
Total current other liabilities		2,472	3,974	2,472	3,974
15. PROVISIONS (NON-CURRENT)					
Employee entitlements (refer note 18)		769	564	769	564
Rent-free provision		566	–	566	–
Total non-current provisions		1,335	564	1,335	564
16. RETAINED SURPLUS					
Retained surplus at the beginning of the financial year		27,288	20,804	27,288	20,771
Net surplus		6,066	6,484	6,066	6,517
Retained surplus at the end of the financial year		33,354	27,288	33,354	27,288
17. FOREIGN CURRENCY EXPOSURE					
The Australian dollar equivalent of foreign currency monetary items included in the Statement of financial position headings to the extent that they are not effectively hedged, are set out below. MLA does take out forward foreign exchange contracts to minimise the short-term impact of currency fluctuations on overseas programs (refer note 29).					
Current assets:					
– United States dollars		412	278	412	278
– Japanese yen		1,307	2,119	1,307	2,119
– Korean won		928	1,054	928	1,054
– Bahrain dinars		68	77	68	77
– Euro		34	39	34	39
		2,749	3,567	2,749	3,567
Current liabilities:					
– United States dollars		23	29	23	29
– Japanese yen		841	1,957	841	1,957
– Korean won		347	198	347	198
– Bahrain dinars		95	78	95	78
– Euro		27	–	27	–
		1,333	2,262	1,333	2,262

Notes to the financial statements

30 June 2004

	Consolidated		Parent	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
18. EMPLOYEE ENTITLEMENTS				
Provisions – current (refer note 13)	3,504	2,993	3,504	2,993
Provisions – non current (refer note 15)	769	564	769	564
	4,273	3,557	4,273	3,557
The number of full-time equivalent employees as at 30 June:	213	216	213	216

19. SALE OF TECHNOLOGY

On 5 May 2000 MLA sold the VIAscan technology to RMS Research Management Systems Inc. ("RMS"), a company incorporated in Canada, for \$11,273,000 (Canadian \$10 million) with periodic payment, including interest, due on or before 31 December 2005. At the same time MLA entered into a five-year licence agreement with RMS giving MLA the exclusive rights to commercialise the technology in Australia and New Zealand. No carrying value had previously been assigned to the technology. The revenue from the sale was recognised as received (2004: \$47,000 (Canadian \$42,000), 2003: \$480,000 (Canadian \$425,000)). Costs associated with the contracts, including licence fees, were expensed as incurred.

The non-payment of scheduled payments in late 2002 and early 2003 prompted discussions with RMS during which it became clear that it was not achieving projected sales of the technology and consequently it was unlikely to be able to meet its future contracted obligations. After an extended period of negotiation and a review by Ernst & Young, Canada, of the financial position of RMS, the directors agreed to accept a lump sum payment of US\$500,000 (\$760,000) plus the return of the VIAscan system and improvements made by RMS in full settlement of the balance owing by RMS. In conjunction with the settlement, any obligation of MLA to pay royalties for Australia and New Zealand ceased. This payment was received and, in accordance with past practice, taken to account in September 2003. Including this payment, the total amount of revenue received from RMS since the initial sale was \$2,512,000.

After calling for expressions of interest, in June 2004 MLA sold the VIAscan technology, its marketing arm, VIAscan Quality Assessment, and related assets, to Sastek Pty Ltd ("Sastek"). Sastek is an Australian-owned company with strong links to the meat processing sector in Australia and New Zealand. The sale terms include payments totalling \$480,000 to MLA, along with a percentage of sales should revenues exceed an agreed threshold. The total payment is to be received in equal annual instalments over five years with the first instalment received prior to year-end. The sale proceeds were recognised during the year after discounting to take into account the timing of the annual payments. Related assets with a carrying value totalling \$657,000 were transferred to Sastek as part of the sale.

Notes to the financial statements

30 June 2004

20. SEGMENT INFORMATION

Business segment

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

Geographic segments

2004 \$000	Australia	Germany	Korea	Japan	Bahrain	United States of America	Total
Segment revenue	136,326	135	1	22	35	–	136,519
Segment assets	64,672	61	1,087	1,335	131	465	67,751
Acquisition of property, plant and equipment	671	–	33	6	39	42	791
Segment liabilities	23,734	49	350	865	166	202	25,366
Segment result	28,971	(875)	(5,879)	(9,081)	(2,282)	(4,788)	6,066

2003 \$000	Australia	Germany	Korea	Japan	Bahrain	United States of America	Total
Segment revenue	123,435	1	17	125	–	–	123,578
Segment assets	54,283	76	1,303	2,358	123	306	58,449
Acquisition of property, plant and equipment	549	4	28	61	34	73	749
Segment liabilities	19,798	70	198	1,957	78	29	22,130
Segment result	33,836	(782)	(6,338)	(12,336)	(2,204)	(5,692)	6,484

21. REMUNERATION OF DIRECTORS

	Consolidated		Parent	
	2004	2003	2004	2003
	\$	\$	\$	\$

(a) Directors' remuneration

Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities of which they are directors or any related party:

935,980 982,548

Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of the parent company, directly or indirectly, from the entity or any related party:

935,980 982,548

	Parent	
	2004 No.	2003 No.

The number of directors of the parent entity whose income (including superannuation contributions) falls within the following bands is:

\$10,000 – \$19,999	2	1
\$20,000 – \$29,999	3	3
\$40,000 – \$49,999	6	7
\$80,000 – \$89,999	1	1
\$170,000 – \$179,999	–	1
\$330,000 – \$339,999	–	1
\$480,000 – \$489,999	1	–

Notes to the financial statements

30 June 2004

Consolidated		Parent	
2004	2003	2004	2003
\$	\$	\$	\$

22. REMUNERATION OF EXECUTIVE OFFICERS

At MLA, the executive officers are the general managers.

Remuneration received or due and receivable by general managers of the consolidated entity whose remuneration is \$100,000 or more, from entities in the consolidated entity or a related party, in connection with the management of the affairs of the entities in the consolidated entity whether as a general manager or otherwise:

1,976,544	1,827,679
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Remuneration received or due and receivable by general managers of the company whose remuneration is \$100,000 or more, from the company or any related party, in connection with the management of the affairs of the company or any of its subsidiaries, whether as a general manager or otherwise:

1,976,544	1,827,679
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23. REMUNERATION OF AUDITORS

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

• an audit or review of the financial report of the entity and any other entity in the consolidated entity	86,330	85,980	81,830	81,480
• other services in relation to the entity and any other entity in the consolidated entity:				
– tax compliance	23,734	14,800	23,734	14,800
– assurance related	47,740	30,000	47,740	30,000
– special audits and other advisory services	36,000	27,053	36,000	27,053
	193,804	157,833	189,304	153,333

24. RELATED PARTY TRANSACTIONS

(a) Directors

The directors of Meat & Livestock Australia Limited during the financial year were:

David Charles Crombie – chairman
Mark Edward Spurr – managing director
Diana Gwendoline Day (elected 19 November 2003)
Vicki Coryn Hardwick
Arthur Macedon Heatley
Christopher Burgoyne Hudson
Wayne Robert Jackson
Peter Robert Milliken
Peter James Trefort (elected 19 November 2003)
Paul Anthony Troja (elected 19 November 2003)
Ian Douglas Stuart Watson
Hardinge Guy Fitzhardinge (retired 19 November 2003)
Patrick Hoyle Musgrave (retired 19 November 2003)

Notes to the financial statements

30 June 2004

24. RELATED PARTY TRANSACTIONS (continued)

(b) Director 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:

- The Company has paid \$1,197,786 (2003: \$943,048) to AUS-MEAT Limited. This is composed of funding for the AUS-MEAT Limited standards function of \$650,000 (2003: \$700,000) and payment of \$547,786 (2003: \$243,048) for various services performed by AUS-MEAT Limited. Mr Spurr was a director of both companies during the year. There were no payments made directly to Company directors by AUS-MEAT Limited in 2004. In 2003, AUS-MEAT Limited paid \$2,516 to Mr James Alexander and \$8,552 to Mr Phillip Morley for services rendered as directors of AUS-MEAT Limited while they were directors of the Company. These amounts have been included in Note 21. AUS-MEAT Limited has also paid \$24,000 (2003: \$12,000) to the Company for service rendered by Mr Spurr and Mr Bloxson (general manager Industry Systems) as directors of AUS-MEAT Limited.

- Mr Watson is a director of Hereford Prime Meat Processing. During 2003, the Company paid Hereford Prime Meat Processing \$26,196 for goods and services supplied and Hereford Prime also paid the Company \$929 for various services provided.

- Professor Hudson is a director of Food Science Australia. The Company has paid \$2,313,201 (2003: \$2,796,512) to Food Science Australia to carry out R&D projects. Food Science Australia also paid \$3,853 (2003: \$nil) to the Company for reimbursement of patent cost.

Professor Hudson is also a professor of the University of Queensland and University of Wollongong. The Company has paid \$408,913 (2003: \$451,312) to the University of Queensland and \$30,246 (2003: \$89,581) to the University of Wollongong to carry out R&D projects.

The Company has paid \$4,100 (2003: \$nil) to the Australian Institute of Food Science and Technology for hiring of booths at the Annual Convention. Professor Hudson was a councillor of the Institute during the year.

- Mr Crombie is a director of GRM International Pty Ltd. The Company has paid GRM International \$258 (2003: \$4,772) for expenses incurred. During 2003, GRM International has also paid \$7,575 to the Company for the provision of administrative assistance services.

- Mrs Hardwick is a director of Hardwick Meat Works Pty Limited, Flockcare Pty Ltd and National Meat Industry Training Advisory Council Limited (MINTRAC).

The Company has paid \$910 (2003: \$48,924) to Hardwick Meat Works for reimbursement of expenses during the year and to carry out R&D projects in 2003. During 2003, Hardwick Meat Works paid to the Company \$28,359 as contribution towards an R&D partnership project.

The Company has paid \$1,203,960 (2003: \$1,826,085) to MINTRAC for the development of training courses and scholarships for the processing sector. MINTRAC has also paid the Company \$3,264 (2003: \$nil) for providing technical advice and reimbursement of expenses.

During 2003, Flockcare paid \$8,400 to the Company as sponsorship for Meat Profit Days and the Company paid \$69,228 to Flockcare to carry out R&D projects.

- Dr Day is an Associate Professor of the University of Sydney. The Company has paid \$1,801,339 to the university to carry out R&D projects.

- Mr Troja is a director of Itoham Pty Ltd and Rockdale Beef Pty Ltd. Itoham paid to the Company \$2,680 for various services provided during the year. Rockdale Beef has paid the Company \$143,621 as contribution towards R&D partnership projects and MSA licence fee and grading services. The Company also paid Rockdale Beef \$185 for goods supplied during the year.

Notes to the financial statements

30 June 2004

24. RELATED PARTY TRANSACTIONS (continued)

(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 \$5,567,742 (2003: \$3,881,555) to the Company which related to R&D partnership income.

25. NOTES TO THE STATEMENT OF CASH FLOWS

	Consolidated		Parent	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
(a) Reconciliation of cash				
Cash on hand	5,256	4,992	5,256	4,992
Short term money market deposits	29,037	23,094	29,037	23,094
Closing cash balance	34,293	28,086	34,293	28,086
(b) Reconciliation of net cash provided by operating activities to net surplus				
Net surplus	6,066	6,485	6,066	6,517
Adjustments for non-cash income and expense items:				
Net loss/(gain) on sale of fixed assets	197	(4)	197	(4)
Depreciation expense	994	1,226	994	1,226
Net foreign exchange (gain)/loss	(135)	411	(135)	411
Change in assets and liabilities:				
(Increase)/decrease in assets:				
– (Increase) in debtors	(5,808)	(2,044)	(5,808)	(1,988)
– Decrease in prepayments	192	191	192	191
– Decrease/(increase) in other assets	1,785	(2,372)	1,785	(2,372)
Increase/(decrease) in liabilities:				
– Increase/(decrease) in trade creditors	3,268	(1,038)	3,268	(1,038)
– (Decrease)/increase in other creditors	(1,502)	2,806	(1,502)	2,806
– Increase in provisions	1,474	226	1,474	226
Net cash from operating activities	6,531	5,887	6,531	5,975

Notes to the financial statements

30 June 2004

	Consolidated		Parent	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000

26. EXPENDITURE COMMITMENTS

Research and development expenditure contracted for is payable as follows:

- Not later than one year	26,130	12,452	26,130	12,452
- Later than one year but not later than five years	20,277	10,228	20,277	10,228
- Later than five years	-	32	-	32
Aggregate R&D expenditure contracted for at balance date	46,407	22,712	46,407	22,712

Operating lease expenditure contracted for is payable as follows:

- Not later than one year	2,391	1,147	2,391	1,147
- Later than one year but not later than five years	4,277	4,999	4,277	4,999
Aggregate lease expenditure contracted for at balance date (a)	6,668	6,146	6,668	6,146

(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 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 2004 the number of members was 30,011 (2003: 29,354).

28. CONTRIBUTED EQUITY

Capital contribution	9,031	9,031	9,031	9,031
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Amount represents contributions from the Commonwealth Government as initial working capital and fixed assets at written down value transferred from the Australian Meat and Live-stock Corporation and the Meat Research Corporation at nil consideration.

Notes to the financial statements

30 June 2004

29. FINANCIAL INSTRUMENTS

(a) Objectives for holding foreign exchange contracts

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 specific 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 amount 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. Forward exchange gains of \$10,000 (2003 loss: \$1,877,000) on these contracts outstanding as at 30 June 2004 have been deferred on the Statement of Financial Position. Refer Note 14.

Option contracts give the consolidated entity the right to purchase specific amount 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 premiums (\$252,000) and the related unrealised loss (\$140,000) on contracts outstanding as at 30 June 2004 have been deferred on the Statement of Financial Position. Refer Note 7.

(b) Foreign exchange – forward contracts

The following table summarises by currency the Australian dollar value of forward foreign exchange contracts. The “buy” amounts represent the Australian dollar equivalent of commitments to purchase foreign currencies. Contracts to buy foreign currency are entered into to minimise the short-term impact of currency fluctuations on overseas programs.

	Average exchange rate		Buy amount	
	2004	2003	2004 \$000	2003 \$000
United States dollars				
Maturing in:				
3 months or less	0.66	0.53	1,443	1,724
Over 3 to 12 months	–	0.57	–	4,024
			1,443	5,748
Japanese yen				
Maturing in:				
3 months or less	72.13	67.55	1,840	2,659
Over 3 to 12 months	–	71.21	–	4,574
			1,840	7,233
Korean won				
Maturing in:				
3 months or less	777.32	649.00	986	1,038
Over 3 to 12 months	–	729.94	–	2,993
			986	4,031

Notes to the financial statements

30 June 2004

29. FINANCIAL INSTRUMENTS (continued)

(c) Foreign exchange – option contracts

The following table summarises by currency the Australian dollar value of the option contracts. The “buy” amounts represent the Australian dollar equivalent of the right to purchase foreign currencies. Contracts to buy foreign currency are entered into to minimise the short-term impact of currency fluctuations on overseas programs.

	Average strike rate		Buy amount	
	2004	2003	2004 \$000	2003 \$000
United States dollars				
Expiring in:				
3 months or less	–	–	–	–
Over 3 to 12 months	0.65	–	5,906	–
			5,906	–
Japanese yen				
Expiring in:				
3 months or less	–	–	–	–
Over 3 to 12 months	70.33	–	6,291	–
			6,291	–
Korean won				
Maturing in:				
3 months or less	–	–	–	–
Over 3 to 12 months	775.05	–	3,219	–
			3,219	–

(d) 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	Non- interest bearing \$000	Effective interest rate	
				Floating %	Fixed %
2004					
Financial assets					
Cash	(1,274)	–	–	4.75	–
US dollars deposit	–	–	349	–	–
Yen deposit	–	–	1,090	–	–
Korean won deposit	–	–	397	–	–
On call deposit	5,017	–	–	5.15	–
Term deposit	–	38	–	–	2.60
Bills of exchange	–	28,676	–	–	5.52
Trade debtors	–	–	10,362	–	–
Other debtors	–	–	20,131	–	–

Notes to the financial statements

30 June 2004

29. FINANCIAL INSTRUMENTS (continued)

2003	Floating interest rate \$000	Fixed interest rate maturing in 1 year or less \$000	Non- interest bearing \$000	Effective interest rate	
				Floating %	Fixed %
Financial assets					
Cash	1,928	-	-	4.25	-
US dollars deposit	153	-	-	0.00	-
Yen deposit	1,975	-	-	0.00	-
Korean won deposit	-	-	342	-	-
On call deposit	594	-	-	4.65	-
Term deposit	-	302	-	-	3.79
Bills of exchange	-	22,792	-	-	4.76
Trade debtors	-	-	6,477	-	-
Other debtors	-	-	17,871	-	-

(e) 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 2004		Consolidated 2003	
	Carrying amount \$000	Net fair value \$000	Carrying amount \$000	Net fair value \$000
Financial assets				
Bank bills	28,676	28,867	22,792	22,919

(f) Credit risk exposure

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 those assets as indicated in the Statement of financial performance.

30. FINANCING ARRANGEMENTS

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

A \$0.5 million (2003: \$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 (2003: \$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.

Notes to the financial statements

30 June 2004

31. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

MLA has commenced transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards (IFRS). The Company has allocated internal resources to perform diagnostics and conduct impact assessments to isolate key areas that will be impacted by the transition to IFRS. As MLA has a 30 June year-end, priority will be given to preparing an opening balance sheet in accordance with AASB equivalents to IFRS as at 1 July 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when MLA prepare its first fully IFRS compliant financial report for the year ended 30 June 2006. Set out below is the key area where there may be a potential accounting policy change and which may have an impact on the financial report of MLA. At this stage the Company has not been able to reliably quantify the impacts on the financial report.

Hedge accounting

Under AASB 139 *Financial Instruments: Recognition and Measurement* in order to achieve a qualifying hedge, the entity is required to meet the following criteria:

- Identify the type of hedge – fair value or cash flow
- Identify the hedged item or transaction
- Identify the nature of the risk being hedged
- Identify the hedging instrument
- Demonstrate that the hedge has and will continue to be highly effective
- Document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested

MLA will review the current accounting policy, which applies hedge accounting to its forward foreign exchange contracts and option contracts to identify whether they meet the new criteria of a specific hedge in accordance with the requirements of AASB 139. Should they not meet the criteria, hedge accounting will no longer be able to be applied to such forward foreign exchange contracts and option contracts and all gains and losses on the contracts will be recognised in the income statement.

Directors' declaration

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

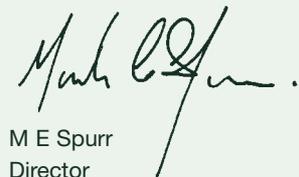
In the opinion of the directors:

- (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 2004 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



D C Crombie
Director



M E Spurr
Director

Sydney
16 September 2004

Independent audit report

to members of Meat & Livestock Australia Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, 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 2004. 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
- 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 judgment 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 have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. 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.

Independent audit report

to members of Meat & Livestock Australia Limited

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 2004 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
16 September 2004

Meat & Livestock Australia Limited

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Auditors

Ernst & Young

Lawyers

Banki Haddock Fiora

Bankers

Commonwealth Bank of Australia



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