



11 November 2011

Dear Shareholder/Supplier

Alliance Group Ltd has reported an operating surplus of \$20.7 million for the year ended 30 September 2011.

A summary of the key financial items for the year -

• Turnover	\$1.5 billion
• Operating surplus before pools and non-recurring expenses	\$20.7 million
• Pool distributions	\$10.8 million
• Non-recurring expenses (Sockburn closure)	\$19.4 million
• Operating cash flow surplus	\$3.1 million
• Equity ratio at balance date	75.1%

SUMMARISED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011 -

	2011 \$000	2010 \$000
FINANCIAL PERFORMANCE		
Operating Revenue	\$1,499,365	\$1,387,114
Operating Surplus	\$20,726	\$29,560
Pool Surplus Distribution	(\$10,815)	(\$12,650)
Operating Surplus before Tax	\$9,911	\$16,910
Non-recurring Expenses	(\$19,414)	-
Profit/(Loss) before Tax	(\$9,503)	\$16,910
Taxation	500	(\$10,592)
Net Profit/(Loss) after Tax	(\$9,003)	\$6,318
FINANCIAL POSITION		
Current Assets	\$217,409	\$191,334
Non-Current Assets	\$241,065	\$248,222
Total Assets	\$458,474	\$439,556
Less Liabilities	(\$114,232)	(\$81,290)
Shareholders' Equity	\$344,242	\$358,266
Shareholders' Equity Ratio	75.1%	81.5%
CASH FLOW		
Operating Cash Flow Surplus	\$3,135	\$110,361

COMMENT ON RESULT

The result for the year is a consolidated operating surplus before pool distributions, non-recurring expenses and tax of \$20.7 million (2010 \$29.6 million) from a turnover of \$1.5 billion (\$1.38 billion). Non-recurring expenses total \$19.4 million and relate to the announced closure of the Sockburn Plant which will provide significant cost savings on an ongoing basis.

The board has approved a pool surplus distribution of \$10.8 million but no dividend will be paid. These distributions are in addition to the yield quality payments over full schedule made to shareholders at the time of processing.

The company's balance sheet remains strong with shareholders' funds at yearend of \$344.2 million and an equity ratio of 75.1% after providing for the redundancy and fixed asset write-down costs associated with the Sockburn Plant closure.

The company is satisfied with the result especially considering the challenges faced throughout the year. Severe weather conditions at lambing in 2010 resulted in around 1.6 million less lambs for export. Particularly hard hit were the lower South and lower North Islands. Both areas are key sources of supply for Alliance Group and the company had been disproportionately affected. For most farmers affected by the storms, record prices for livestock have helped mitigate the negative financial impact, while those principally outside the affected areas have had an opportunity for an exceptional year.

The effects of nature were again felt in February when the second and most devastating earthquake occurred in Christchurch which compromised the company's venison and beef processing ability during the subsequent peak processing periods for those species.

Outlook

The company believes that the future for sheepmeat, beef and venison are favourable, driven by good demand in existing and developing markets against reduced supply around the world. Market prices for our products are at high levels and the company remains confident looking forward. Alliance Group's core strategy of operating at the top end of the market remains. Alliance Group's *Ashley* brand is the predominant brand for imported sheepmeat in Europe while the company's *Pure South* brand is growing in prominence in Asia.

Alliance Group is investing \$15.0 million at its Matura Plant to upgrade beef processing facilities. The project will increase the plant's capacity from 34 to 75 animals per hour and includes installation of the latest technology in beef processing. Construction has progressed well and the new facilities are on schedule to be commissioned at the commencement of the new season.

Issues of environmental responsibility have been steadily growing among consumers for a number of years. The issues have broadened and are now embodied in the word "sustainability". Alliance Group is well positioned to meet this challenge. The company's Farm Assurance Programme has been in place for many years and, coupled with the ISO based environmental and quality management systems in place at plants, ensures a robust platform on which to provide assurances to customers and the consumer.

These systems add to Alliance Group's investments in technologies such as VIAscan®, Central Progeny Test trials and research into lamb meat eating quality which embrace genetic diversity and aim to assist suppliers produce high quality marketable livestock. Alliance Group's research and investment in all areas of its business over many years and the culture of continuous improvement, are consistent with the themes of sustainability and will help the company to meet the expectations of consumers into the future.

POOL SURPLUS DISTRIBUTION PAYMENTS

Directors have approved a pool surplus distribution of \$10.8 million which will be paid on 16 December 2011 -

Lamb	The average pool surplus payment for lamb was \$2.65 per head. Pool surplus distributions are in addition to Yield Quality Contract premiums paid at time of processing.		
Sheep		\$1.00	per head
Cattle	Market Choice	\$7.50	per 100 kg
	Premium Steer and Heifer	\$7.00	per 100 kg
	Bull Beef	\$5.25	per 100 kg
	Prime Cow	\$4.75	per 100 kg
	Manufacturing Beef	\$4.50	per 100 kg
Deer	Animals under 3 years	\$10.00	per 100 kg
	Animals over 3 years	\$5.00	per 100 kg

ADDED VALUE

Shareholder support for the Yield Quality Contract remains strong. Pool surplus payments, Yield Quality Contract payments and other quality-related premiums such as antibiotic-free, belly and shorn, and farm assurance are above prevailing schedule prices. The value of premiums and pools paid out this year for qualifying lambs is shown below -

•	Pool Surplus Distribution	\$2.65 (including farm assurance premium)
•	Yield Quality Contract	\$4.22 (average)
•	Belly and Shorn Premium	\$1.60
•	Antibiotic-free Premium	\$0.50
	Total	<u>\$8.97</u>

For a qualifying 17.5 kg lamb premiums and pools equate to an additional 51 cents per kilogram above the prevailing schedule.

LIVESTOCK

Store Stock – New Pool Surplus Payment Category

Next year the company will introduce a new pool surplus payment category for store stock sold for finishing through the company's store stock facility. Alliance Group recognises the contribution made by shareholders who are predominantly livestock breeders. The new payment category is intended to enable those shareholders to share in the company's distributions. To be eligible for the payment, livestock must be transacted through Alliance Group's store stock facility which ensures livestock remain committed to the company for processing. The new payment category will apply to lambs, cattle and deer.

Store Stock Options

Alliance Group continues to offer suppliers wanting to buy store lambs for finishing the following options –

- purchase outright;
- fixed weight gain contract;
- share-farming between breeder and finisher.

Farm Assurance Premium

From this season the farm assurance premium will be paid at time of processing.

Belly/ Shorn Premium

The belly/shorn premium (\$1.60 per lamb) will commence for this season on 7 February 2012.

ANNUAL MEETING OF SHAREHOLDERS

The annual meeting of shareholders will be held in Invercargill at 10:30am on Friday, 16 December 2011, at the Ascot Park Hotel, Racecourse Road, Invercargill. The annual report will be posted to shareholders on 30 November 2011.

DIRECTORATE

The two directors retiring by rotation this year are Owen Buckingham and John Lindsay. John Lindsay is standing for re-election while Owen Buckingham is retiring from the board. As nominations exceed the number of vacancies, a postal ballot will be held to elect two directors. Candidates for the two vacancies are Neil Campbell (South Canterbury), Jared Collie (Central Southland), Doug Fraser (Riverton), Neil Gardyne (Gore), Jeff Grant (Balfour), John Lindsay (Dipton), Allan Marshall (Waikawa Valley) and Dawn Sangster (Central Otago).

Voting papers will be included with the annual report being posted on 30 November 2011. Completed voting papers must be returned to the company by 10:30am on Wednesday, 14 December 2011.

BURSARIES

Undergraduate Study Bursary

Applications are invited from children of shareholders who are applying for admission to a university within New Zealand for Alliance Group's Undergraduate Bursary. This bursary is intended to encourage children of shareholders to undertake university study in an area relating to the meat industry, its associated industries and/or primary production. The bursary is valued at \$2,000 per annum and is tenable for three years.

Diploma or Certificate in Agriculture

Applications are invited from children of shareholders who are about to embark on full-time study towards either the Diploma or Certificate in Agriculture. The bursary is valued at \$1,000 and is tenable for one year.

Application forms and conditions of application for either bursary may be obtained from the website www.alliance.co.nz or request by email to bursary@alliance.co.nz. Applications close on 20 January 2012.

We wish all shareholders and suppliers the compliments of the festive season.

Thank-you for your continuing support.



GRANT CUFF