



# Tandou Limited

March 2011

Sustainable Water Investor and Agribusiness



# Water and Agribusiness

“Go long Agriculture and Water and go to the beach”

*Larry Fink – Black Rock Founder and CEO,  
The Australian, 1 Feb 2011*

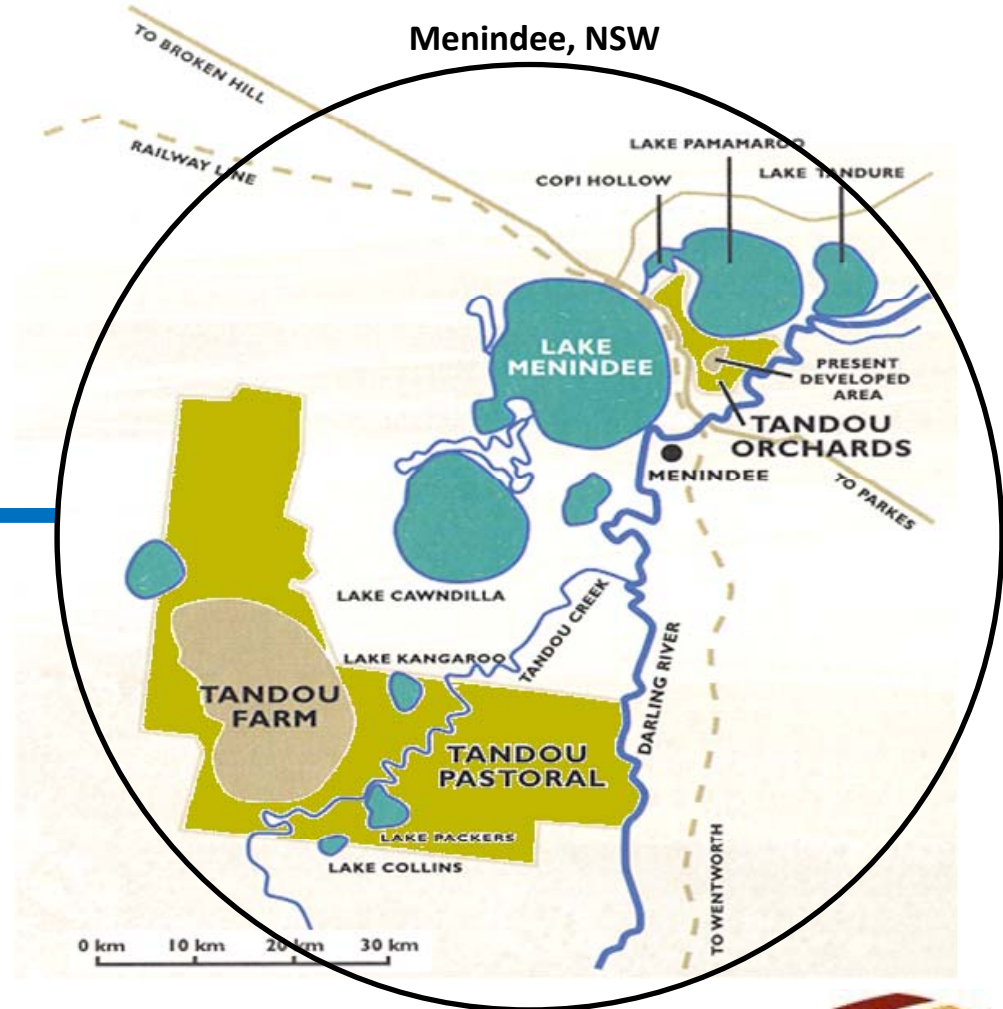
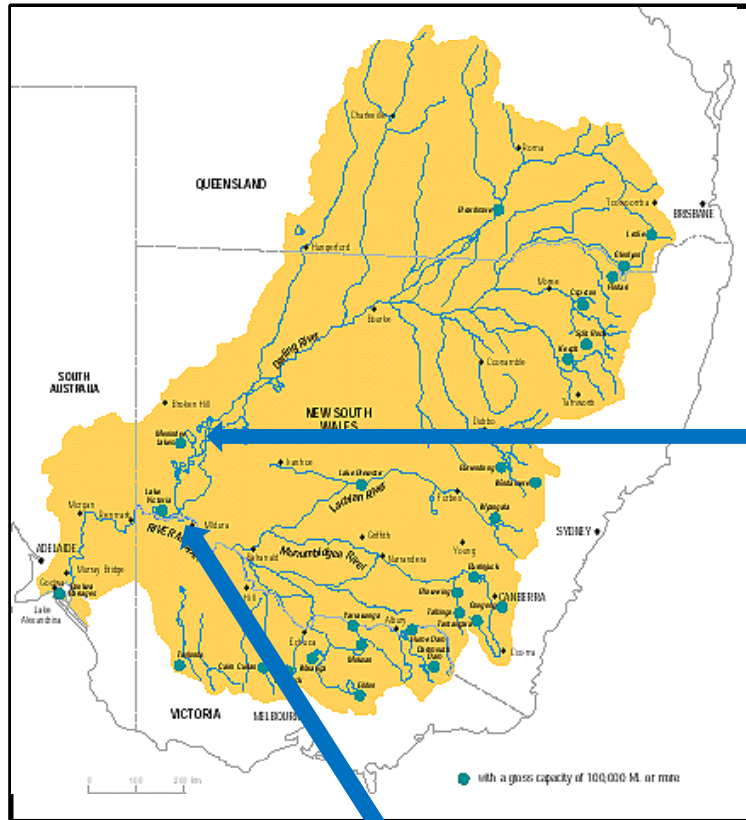
# Tandou

- *maximising yield from water investment or cropping*
- *listed investment vehicle of choice for water investment in Australia*

- well positioned in the **water investment** sector with a large portfolio of entitlements and a number of years of profitable returns from the water business
- Tandou Farm is a valuable strategic asset
  - Provides the **option of cropping** when returns from selling allocations become less than those available from soft commodity production
- exposure to both **water** assets and **soft commodities (cotton and cereals)** in Australia



# Location Map



**Mildura, Vic.**  
(head office)

Sustainable Water Investor and Agribusiness

# Tandou Overview

- Tandou owns and operates a growing portfolio of water entitlements
  - ~**38 gegalitres** in the connected southern Murray-Darling system
- Tandou owns large scale **irrigated cropping (13,200 ha)** and **pastoral operations (65,000 ha)** near Menindee in Western New South Wales
- Tandou operations are **diversified** with the ability to generate earnings from the sale of its annual water allocations and/or crop production
- Value is also generated through the **capital growth** of water entitlements and agricultural land assets
- **Tandou** commenced **in 1970** as a privately owned farming operation growing cereal on Lake Tandou and listed on the **ASX in 1987**

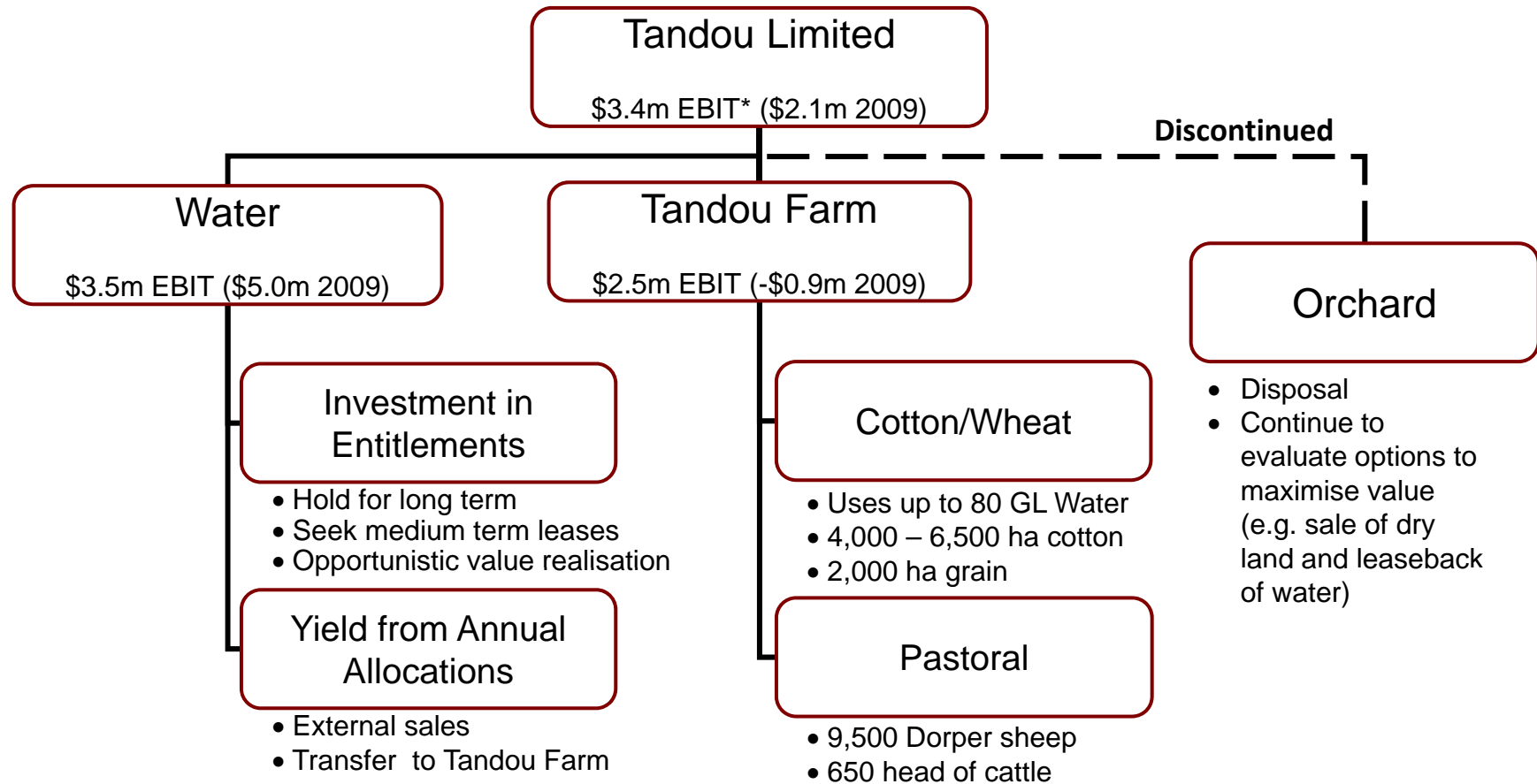
# Tandou Capital Structure

- NTA per share (water entitlements at book value) 50c
- Directors' assessed value per share (using market value of water entitlements) 70c
- 12 month share price range 28-58c
- Market cap (current share price – 57cents) \$50.2 million
- Shares on issue 88.1 million
- Largest 20 shareholders hold 83%
  - GPG 28.4%
  - Ecofin (UK) 19.5%
  - Water Asset Management (US) 13.1%

# Tandou 2010 Results

- EBIT from **continuing operations** of **\$3.4 million** - 65% improvement on 2009
- Reported profit after tax of **\$6.0 million** after adjustment for income tax benefit
- **Water segment** EBIT of **\$3.5 million** (2009: \$5.0 million) despite falling water allocation prices. External revenue \$7.1 million (2009: \$9.8 million)
- **Cropping segment** EBIT of **\$2.5 million** (2009: (\$0.9) million)
- **Operating cash flow** of **(\$14.3) million** reflecting:
  - **\$8.9 million** new investment in **water entitlements** during 2010 (5,400ML)
  - start-up and planting costs incurred for 4,000ha cotton crop
- **Net debt** of **\$13.2 million** (total facilities of \$30 million)

# Operational structure



\* EBIT from continuing operations. Includes unallocated corporate costs of \$2.6m (\$2.1m 2009)

# Australian Water Market

- Australia, USA and Chile have the most significant and mature water markets in the world, Spain, Italy and South Africa also have developing water markets.
- Key aspects of the Australian water market
  - Water prices in Australia are set by market forces and are not regulated
  - Water entitlements in Australia are protected by the rule of law and are centrally registered at the Water Titles Offices
  - Water entitlements are accepted as security by major lending institutions and are legally enforceable and defensible
  - Trade restrictions between areas are being removed allowing water markets to function
- Key points from National Water Commission Water Market Report 2009-10
  - Australian water markets continued to increase in value, from \$2.8 billion in 2008-09 to \$3.0 billion in 2009-10
  - The total value of turnover of entitlement is estimated to have been about \$2.6 billion in the 2009-10 water year, a 17% increase on 2008-09, this reflected an increase in the volume of entitlements traded
  - Total trades of water allocation in the Murray Darling Basin were valued at \$366.3 million (excluding Qld)

# Connected MDB Trading Areas



Data sources: Water trading zones generated by ABARE-BRS from documents provided by the Murray-Darling Basin Authority, NSW Office of Water, Murray Irrigation Limited, Vic. Department of Sustainability and Environment and SA Department for Water. Topographic data: Geoscience Australia (2002-08). Map produced by ABARE-BRS © Commonwealth of Australia.

# Water Value Drivers

- **Reduced supply** of entitlements for agricultural production
  - Cap on new licences – no new licences being issued
  - Commonwealth water buyback – reducing water for consumptive use
  
- **Increased demand** for water
  - Population growth – Urban demand
  - Food demand
  - Environmental demand is increasing
  
- **Improved water market liquidity** and price transparency
  - Market continues to develop
  - Participants knowledge improving
  
- **Climate Change**
  - Volatile rainfall and water supply

# Tandou Water

- Tandou is **growing** its strategic investment in water assets adding to a significant, diversified portfolio of entitlements held on the connected southern Murray-Darling System
- Tandou owns ~38 gigalitres ( 2009: 32 gigalitres) with a directors' valuation (based on market prices) of **\$37.7 million – 43 cents per share**
- Water investment strategy focussed on:
  - Entitlements with more acute supply and demand factors compared to the wider entitlement pool
  - Quality of entitlement by assessing allocation history, outlook, carryover capacity and potential step changes in demand
- Tandou is well placed to **identify value buy opportunities** that arise for Water entitlements

# Tandou Water – 2010 Economics

	Allocation Sales		Trade in Entitlements	Total
	Tandou Farm (internal)	External		
<b>CY 2010 water</b>	12,129 ML used	26,717 ML sold	2,252 ML sold	41,091 ML
<b>Revenue</b>	\$1.0m (\$75/ML)	\$3.7m (\$138/ML)	\$3.4m (\$1,491/ML)	\$8.1m
<b>Gross profit</b>	\$0.5m (52% margin)	\$3.2m (87% margin)	\$0.6m (17% margin)	\$4.3m (54% margin)
<b>Division overhead</b>				\$0.3m
<b>Division EBIT</b>				\$4.0m
<b>Internal eliminations</b>	(\$0.5m)			(\$0.5m)
<b>Reported EBIT</b>				\$3.5m

# Tandou's Water Holdings

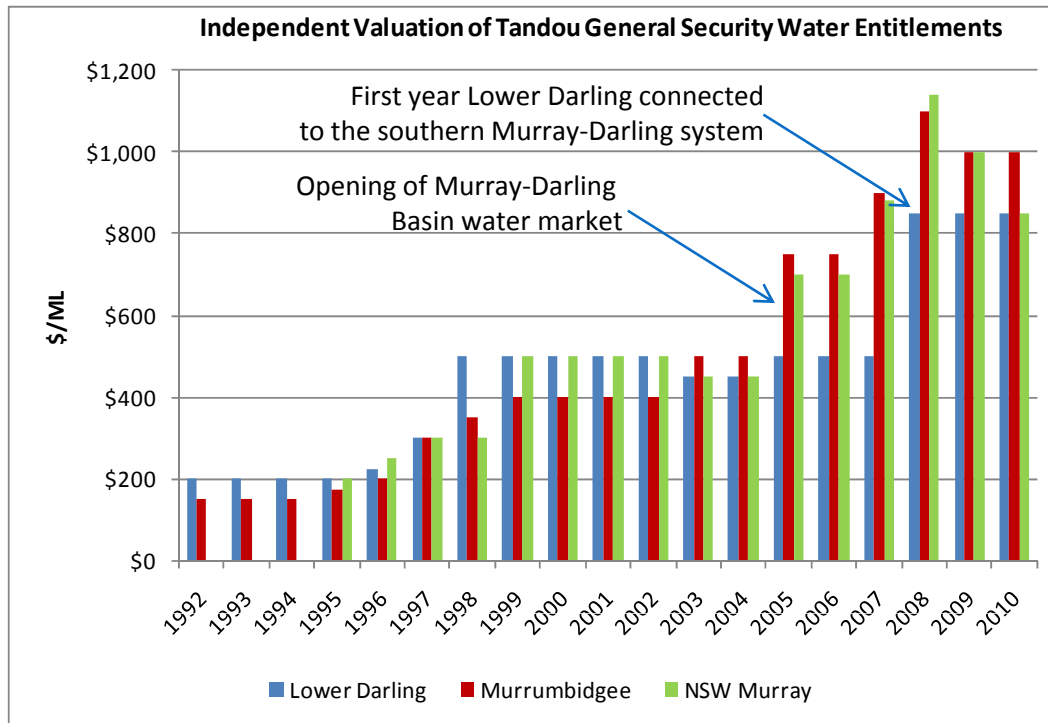
- increased more than 5,400ML (17%) from 2009

Valley	Licence Category	Total	Entitlements on Issue (ML)			Tandou % of Available
			C'th Gov't Buyback*	Available	Tandou** (ML)	
Vic Murray	High Reliability	1,181,641	142,587	1,039,054	4,932	0.5%
	Low Reliability	300,846	11,168	289,678	Nil	Nil
NSW Murray	High Security	191,583	386	191,197	92	0.0%
	General Security	1,667,723	192,797	1,474,926	3,492	0.2%
Murrumbidgee	High Security	377,435	103	377,332	Nil	Nil
	General Security	1,888,070	102,953	1,785,117	9,753	0.5%
Lower Darling	High Security	7,633	Nil	7,633	438	5.7%
	General Security	78,100	492	77,608	19,103	24.6%
Goulburn	High Reliability	993,396	119,670	873,726	57	0.0%
	Low Reliability	438,597	10,264	428,333	Nil	Nil
SA Murray	High Security	544,019	62,602	481,417	Nil	Nil
<b>Total</b>		<b>7,669,043</b>	<b>643,022</b>	<b>7,026,021</b>	<b>37,867</b>	<b>0.5%</b>

\* As at 28 Feb 2011 (Source: Dep't of Sustainability, Environment, Water, Population and Communities). Excludes other programmes for securing environmental water i.e. The Living Murray, Water for Rivers, NSW Riverbank, Victorian Foodbowl Modernisation, SA entitlement purchase and Sustainable Rural Water Use and Infrastructure (\$5.7b)

\*\* Tandou entitlements as at 31 December 2010

# Tandou Water – Capital Growth



Average growth across General Security portfolio since 2005 – 6.7% pa

Lower Darling not part of the connected southern Murray-Darling system until mid-2008

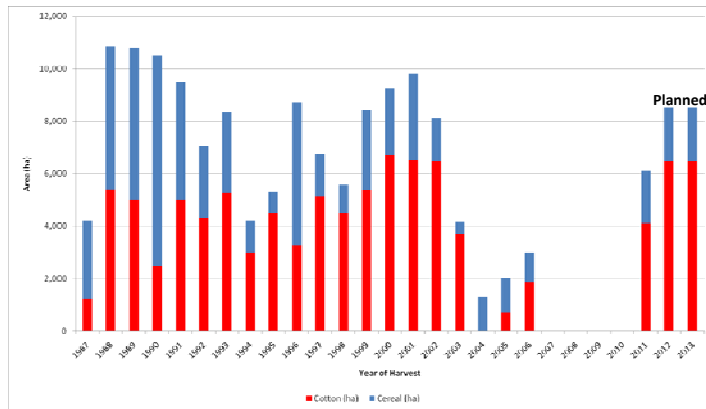
- growth since 2007 – 21.6% pa

## Tandou independent annual Water entitlement values over 20 years

Note: Prior to 2005, valuations as at 30 June. From 2005 onwards, valuations are as at 31 December. Previous year's valuation carried over in years when a valuation was not undertaken.

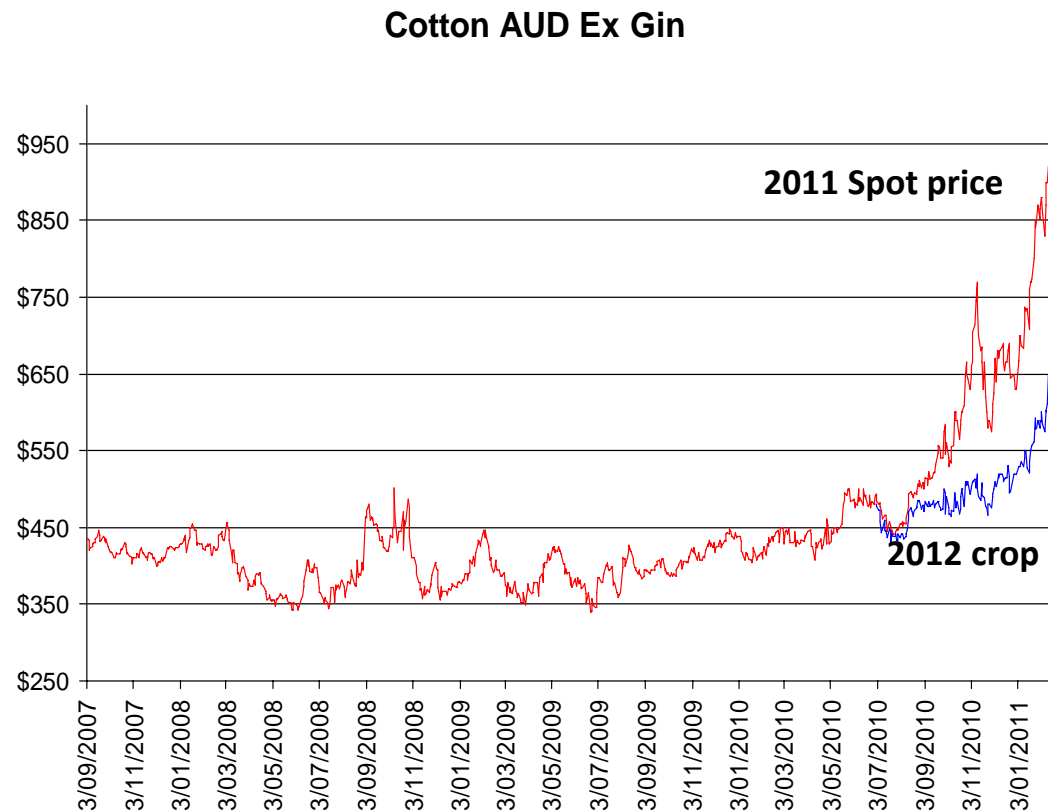
# Tandou Farm

Cotton and Cereal Planting Area (ha)



- Tandou Farm successfully established **4,000ha** of cotton in Oct 2010 being 3,560ha of Upland and 440ha of Pima
- Above average rainfall and floods have not impacted crop
- Cotton forward sales policy:
  - up to 4.5 bales/ha with known water availability
  - up to 6 bales/ha with confirmed Pima/Upland mix
  - up to 7 bales/ha on crop emergence (during Nov)
  - up to 8 b/ha at crop yield assessment (during Feb)
- Preparing for **2,000ha of cereal** (winter 2011) and **6,500ha of cotton in 2012** (summer 2011/12)
- Organic Lamb production based on 9,500 Dorper ewes

# Cotton Prices 2007 - 2011



## KEY MARKET FACTORS:

- Tight global inventories (stocks-to-use ratio lowest since 93/94)
- Pakistan floods, Indian export controls and China drought
- Resurgence in demand from Chinese mills
- Volatility likely to continue until Northern hemisphere production becomes known in late 2011/early 2012

# Tandou Outlook

## Strategic Objectives:

- Aim to be largest water entitlement holder in connected southern Murray-Darling System
  - Accumulate water entitlements in specific valleys for yield from annual allocations and long term growth in capital value
- Take advantage of optionality of Tandou Farm generating soft commodity crops when water is available & allocation prices lower
  - 4,000ha 2011 cotton crop to be harvested in May (total crop forward sold at \$494/bale for Upland and \$715/bale for Pima)
  - Continue preparations for 6,500ha's 2012 cotton crop (55% sold) and 2,000ha cereal 2011 winter crop
  - Sufficient visibility of water availability to begin forward sales of 2013 cotton
- Build shareholder value with sustainable profits, cash flow and capital growth

# Tandou

- *maximising yield from water investment or cropping*
- *listed investment vehicle of choice for water investment in Australia*

- well positioned in the **water investment** sector with a large portfolio of entitlements and a number of years of profitable returns from the water business
- Tandou Farm is a valuable strategic asset
  - Provides the **option of cropping** when returns from selling allocations become less than those available from soft commodity production
- exposure to both **water** assets and **soft commodities ( cotton and cereals)** in Australia



# Disclaimer

- This presentation has been prepared by Tandou Limited (“the Company”). It contains general background information about the Company’s activities current as at the date of the presentation. It is information given in summary form and does not purport to be complete. The distribution of this presentation in jurisdictions outside Australia may be restricted by law and you should observe any such restrictions.
- This presentation is not (and nothing in it should be construed as) an offer, invitation, solicitation or recommendation with respect to the subscription for, purchase or sale of any security in any jurisdiction, and neither this document nor anything in it shall form the basis of any contract or commitment. The presentation is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objective, financial situation or need of any particular investor. These should be considered, with or without professional advice, when deciding if an investment is appropriate.
- The Company has prepared this presentation based on information available to it, including information derived from publicly available sources that have not been independently verified. No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness, correctness or reliability of the information, opinions and conclusion expressed.
- Any statements or assumptions in this presentation as to future matters may prove to be incorrect and differences may be material. To the maximum extent permitted by law, none of the Company, its directors, employees or agents, nor any other person accepts any liability, including, without limitation, any liability arising from fault or negligence on the part of any of them or any other person, for any loss arising from the use of this presentation or its contents or otherwise arising in connection with it.

# Additional Information

# Tandou Board of Directors

**Rob Woolley**

**Independent  
Chairman**



- Current Chairman of Tasmanian Forests & Forest Ind. Council
- Formerly Managing Director of Webster's Ltd
- Over 20 years corporate finance experience as a partner of Deloitte

**Guy Kingwill**

**CEO & Managing  
Director**



- Appointed CEO of Tandou in March 2006, after commencing with the Company as CFO in June 2005
- Extensive management experience through senior executive roles in Australia & with Bayer in the United States

**Greg Hunt**

**Independent Non-  
Executive Director**



- Extensive agribusiness experience through former board positions with BWK Ag (Germany), AACo, HiFert & Webster Ltd
- Formerly Managing Director of Elders Ltd until July 2007

**David Boyd**

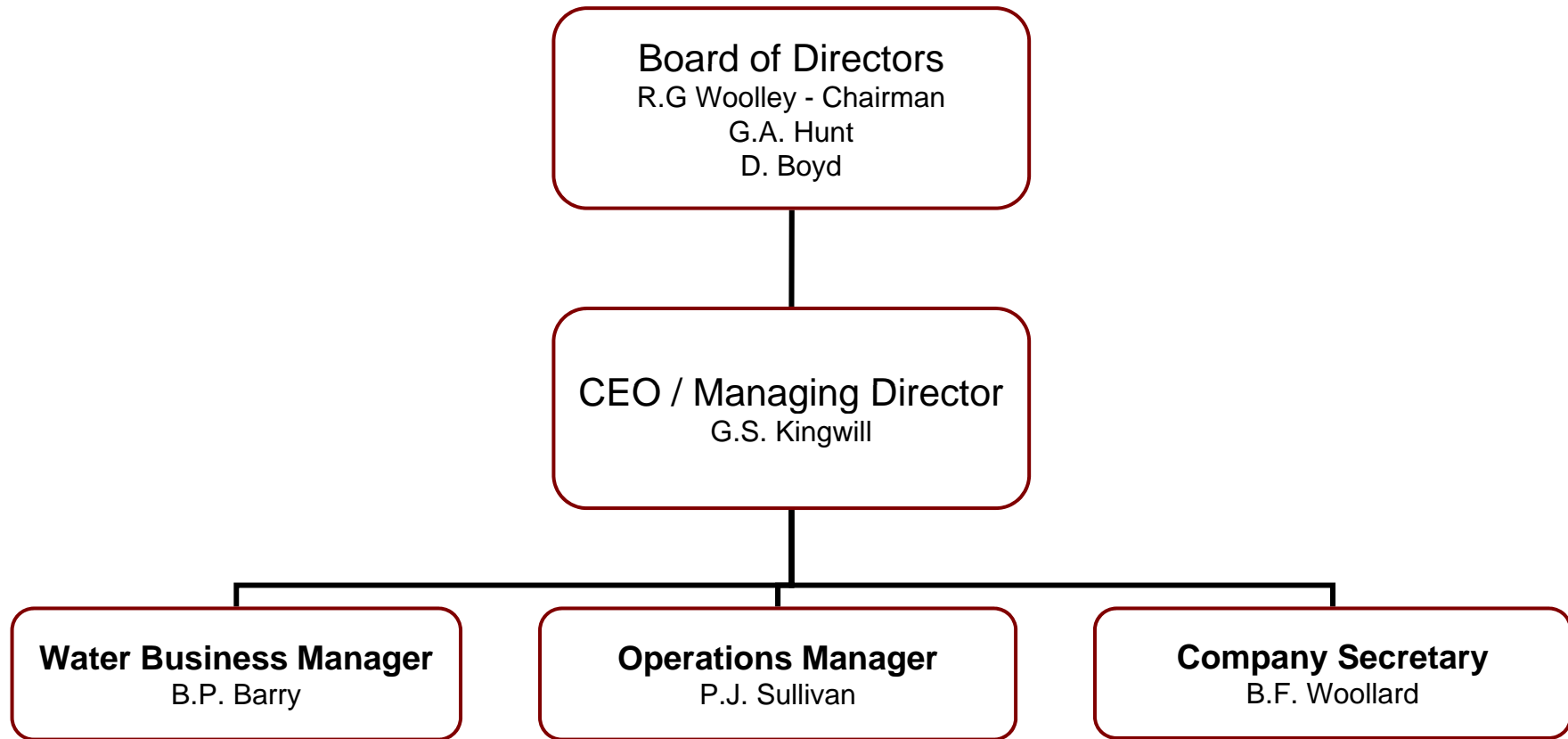
**Independent Non-  
Executive Director**



- Over 50 years working in Australian agriculture
- David Boyd is a former Chairman and CEO of Clyde Agriculture
- Recently retired as a non Executive Director of Clyde

**Tandou has an experienced Board and management team with proven water and agricultural capabilities, strong corporate governance and expertise in soft commodity production**

# Organisational chart



**Capable and experienced management team**

# Tandou Segment Results

	Revenue		Adjusted EBIT	
	\$m 2010	\$m 2009	\$m 2010	\$m 2009
<b>Water Trading</b>	<b>7.1</b>	<b>9.8</b>	<b>3.5</b>	<b>5.0</b>
<b>Crops</b>	<b>0.9</b>	<b>1.4</b>	<b>2.5</b>	<b>-0.9</b>
<b>Corporate</b>	<b>-</b>	<b>-</b>	<b>(2.6)</b>	<b>(2.1)</b>
<b>Continuing Operations</b>	<b>8.0</b>	<b>11.2</b>	<b>3.4</b>	<b>2.1</b>
<b>Discontinued Operations</b>	<b>2.7</b>	<b>3.4</b>	<b>(2.3)</b>	<b>(1.9)</b>
<b><i>Consolidated</i></b>	<b>10.7</b>	<b>14.6</b>	<b>1.1</b>	<b>0.1</b>

# Tandou continuing operations

Consolidated result (A\$'000's)	2010	2009
Operating Revenue	7,968	11,130
Gross profit	<u>3,944</u>	<u>4,411</u>
EBIT	<u>3,386</u>	<u>2,053</u>
Net financing costs	(466)	32
Profit before tax	<u>2,920</u>	<u>2,085</u>
Profit after tax	<u>7,601</u>	<u>2,085</u>
EPS (cents)	<u>8.6</u>	<u>2.4</u>

*Note: figures exclude discontinued operations*

# Tandou Balance Sheet

(A\$'000's)	Dec-2010 (Dir.Val'n)	Dec-2010 (Book)	Dec-2009 (Book)
<b>Current Assets</b>	<b>37,630</b>	<b>27,176</b>	<b>14,842</b>
<b>Total Non Current Assets</b>	<b><u>50,689</u></b>	<b><u>36,007</u></b>	<b><u>27,111</u></b>
<b>Total Assets</b>	<b><u>88,319</u></b>	<b><u>63,183</u></b>	<b><u>41,953</u></b>
<b>Current Liabilities</b>	<b>4,444</b>	<b>4,444</b>	<b>3,032</b>
<b>Non Current Liabilities</b>	<b><u>13,978</u></b>	<b><u>13,978</u></b>	<b><u>293</u></b>
<b>Total Liabilities</b>	<b><u>18,422</u></b>	<b><u>18,422</u></b>	<b><u>3,325</u></b>
<b>Net Assets</b>	<b><u>69,897</u></b>	<b><u>44,761</u></b>	<b><u>38,628</u></b>
<b><i>Total number securities on issue (000's)</i></b>	<b><i>88,101</i></b>		
<b><i>Assessed value per security (cents per share)</i></b>	<b><i>70</i></b>		

**Notes:**

- 1. Directors' valuation based independent valuations as at 31 December 2010***
- 2. Figures are net of capitalised corporate costs***