Australian Pork Limited

ANNUAL OPERATING PLAN 2021 - 22

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EXECUTIVE SUMMARY

A delivery plan

The 2021-22 year is set to be the year where we take the new APL and demonstrate what we can do.

From an external perspective, the 2021-22 year starts with less uncertainty than the same time last year.

The Australian government has done a good job containing COVID-19 (although challenges remain) and worked with industry and APL to become even more united on biosecurity preparedness.

From a trading environment perspective, the global meat shortage and anticipated high beef and lamb prices represent a more attractive set of circumstances than last year.

From an internal perspective, this is the second year of our "progressive pork organisation" strategy. We begin with the new APL structure now in place and ready to deliver. This delivery is predicated on a more focussed set of priorities. These are encapsulated in two operational mantras for the year.

- Drive Innovation
- Valuable Provenance

Both are APL wide themes. Driving Innovation applies to approaching demand creation, industry reporting and stakeholder dialogue just as much as it does to our research, development, and extension (RD&E) strategy.

Valuable Provenance is about differentiating Australian pork from imported sources of pork, through our uniquely Australian story and building on learnings of our ham and bacon experiment from 2020-21.

This plan has been developed by our impressive portfolio of people and has been approved by the APL Board.

Operationally, we plan to unleash additional creativity and accelerate industry performance by empowering our people with increased decision-making responsibility.

This Annual Operating Plan (AOP) is born out of the 2020-2025 Strategy roadmap. All our activities are striving to reach our audacious goal below.

Australia's preferred choice protein;
Sustainably adding $1 billion
to farm gate value by 2025

Our top three priorities (of our top 10 for the year) for progress in the 2021-22 year are:

1. Improve on-farm documented biosecurity plans.
2. Accelerate progress in our focus RD&E areas.
3. Improve our "diversity of markets" options

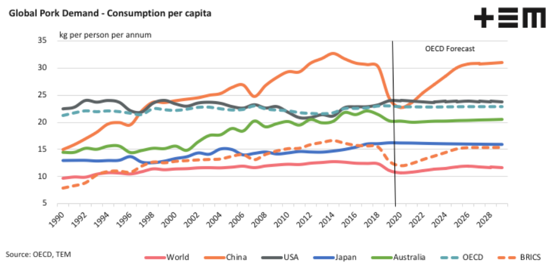
THIS YEAR IS ABOUT CONVERTING APL'S PROMISE INTO ATTRACTIVE OUTCOMES

OPERATING ENVIRONMENT

Underlying assumptions

The operating environment for the 2021-22 financial year remains more volatile than an average year. However, there are some underlying assumptions which appear reasonable and upon which this Annual Operating Plan is based.

In terms of global context, the OECD suggests that the impact of African swine fever (ASF) on pork is that consumption will not recover until 2025.



Graph 1: OECD Selected International pork consumption estimates.

Assumption 1 – pork will be in global short supply for the 2021-22 year.

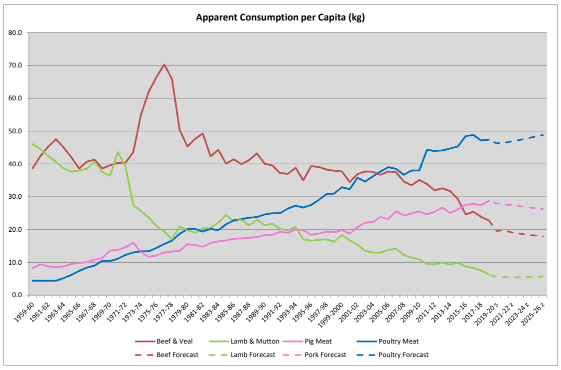
Domestically, whilst COVID-19 outbreaks will continue to occur, Australian food supply chains have proven themselves quite resilient.

> WHILST THERE IS LIKELY TO BE SOME RATIONALISATION OF FOODSERVICE OUTLETS, CONSUMPTION IN VOLUME HAS BEEN LARGELY UNAFFECTED, EVEN IF VALUE FROM REDUCED EATING OUT HAS BEEN IMPACTED.

> POSITIVE OPERATING ENVIRONMENT FACTORS INCLUDE ABNORMALLY HIGH PRICES OF COMPETITORS.

Assumption 2 - domestic demand for food is unaffected for the 2021-22 year.

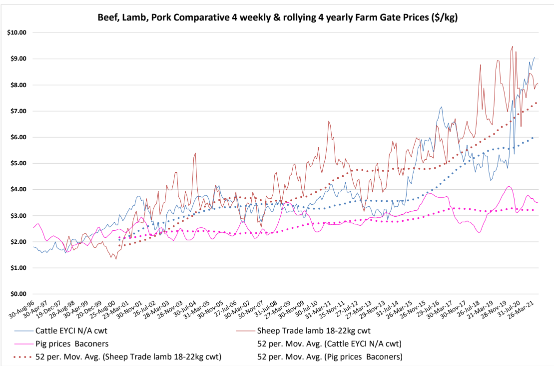
ABARES forecast meat consumption to decline as below. These forecasts have consistently overestimated beef and lamb and underestimated pork consumption.



Graph 2: ABARES Australian per capita meat consumption (Carcass weight Equivalent kg).

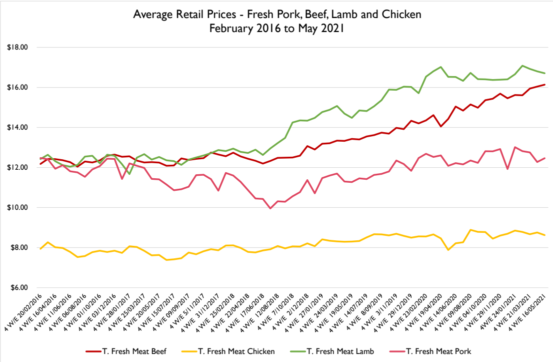
Assumption 3 - domestic pork consumption will increase by 4% in the 2021-22 year.

Re-stocking in both beef and lamb industries, combined with high international demand is driving high lamb and beef farm gate prices.



Graph 2: Australian Farm gate Prices per kg in dollars – Source APL & MLA

The growth in Australian pork consumption domestically is in part driven by increased beef and lamb prices to consumers.



Graph 4: Australian Retail Species Prices per kg in dollars – Source Nielsen Homescan

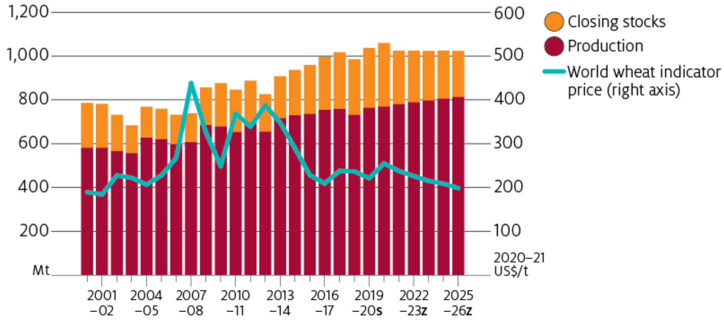
Assumption 4 - the current retail price differentials for pork from beef, lamb and chicken will continue for the 2021-22 year.

From an Australian supply outlook, the latest estimate based on feedback from two-thirds of our producers is that Australian pork supply will grow by 5.5% in the July to December 2021 period, versus the same time last year.

These forecasts have been tended to be overestimates the further out in time, hence the assumption of 4% growth.

Also, grain production is forecast by the Department of Agriculture, Water, and the Environment to be lower than last year's almost record highs. DAWE estimates production to be 46.8 million tonnes, 13% above the 10-year average. Wheat is likely to be up in volume and barley slightly down.

Grain prices may have some upward pressure due to forecast lower production internationally.

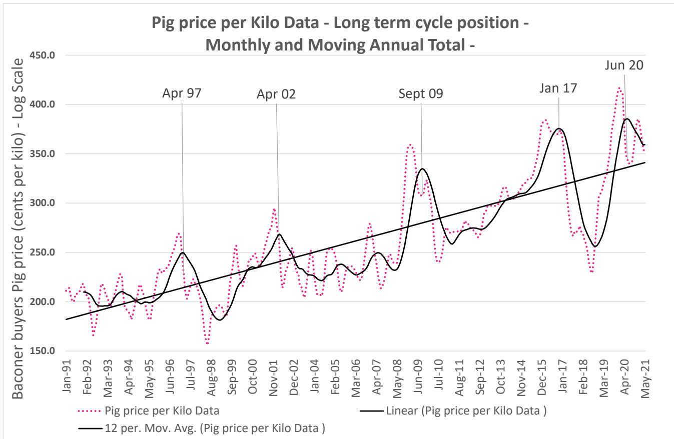


Graph 5: Australian Wheat stocks and production – Source Department of Agriculture

Assumption 5 - grain prices will remain in a range + or - 10% of the June 2021 prices for the 2021-22 year.

Recent trends in pig farm gate price suggest a shortening of the volatility in the pig cycle.

It is unclear whether this shortening is a function of dual pandemics (ASF and COVID-19) or more rapid demand growth.



PRIORITISATION

Focus themes

Market and Product Differentiation	Manage Volatility for Viable Farms	Drive Consumer Demand	Leading Community Social Licence	Building Industry Shared Vision
• Diversity of markets and products • Quality consumer eating experiences • Valuable provenance of Australian	• Timely relevant through the chain information • Reduce cost of production • Diversified pig business extension opportunities	• Maintain domestic fresh demand • Grow domestic demand • Grow targeted international demand	• Leaders in animal care • Biosecurity leadership • Climate friendly farming • Industry visibility	• Producers relations (shared values) • Technology adoption • Organisational effectiveness

“The essence of strategy is about choosing what not to do” Michael Porter - Harvard Business Review

APL’s 2020-25 Strategic Plan includes 5 themes and 16 areas for progression. Some of these are requirements every year and some are consequential on progress in other areas.

This AOP is consistent with the ambitious progress outlined in our Strategic Plan.

This plan has been developed by working closely with the entire APL team, the APL Board and consulting with industry. From this we have chosen 10 priorities for the coming year.

This does not mean that every industry participant will agree on our priorities.

It does mean there is alignment between management and the APL Board on what the top priorities are.

It also means the degree of ambition for each key results area (KRA), or key performance indicator (KPI) have been formed as portfolio, which tends more towards ambition than balance.

Top 10 Priorities

1. Improve African Swine Fever preparedness	**2. R&D Extension & Adoption improvement**	**3. Get Some Pork on your Fork Acceleration**	**4. Broaden diversity of markets**	**5. Tell the story of Australian pork**
6. Learn from the South Australian “Ham Experiment”	**7. Build climate friendly farming credentials**	**8. Build consumer eating quality**	**9. Reduce cost of production & processing**	**10. New IT Information reporting to Stakeholders**

OUR INVESTMENTS INTEGRATE THE TRIPLE BOTTOM LINE OBJECTIVES OF ECONOMIC, ENVIRONMENTAL, AND SOCIAL RESPONSIBILITY.

KEY FOCUS AREAS

Our five strategic themes

APL will continue the delivery of a thriving pork industry by focusing on five strategic themes:

1. Market and product differentiation
Building a broader portfolio of points of difference that are more valuable to some customers than other competing products or services.
2. Manage volatility for viable farms
The uncertainty that goes with all markets is particularly intense with agriculture. Booms and busts. This theme is about flattening those extremes.
3. Drive consumer demand
Understanding what the consumer wants and providing that in a better way than our competitors, at a price the consumer is prepared to pay will continue to be one of our central roles.
4. Leading community social licence
Often societal permission holds organisations to a higher standard than the law. This strategy is aiming higher than both.
5. Building industry shared vision
This involves creating dialogues with each APL member and finding value that they can add to the industry as well as finding value that APL can add to their business.

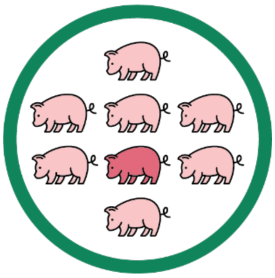
As described in APL's Strategic Plan 2020-25, these themes have been developed to ensure strategic alignment with the national and rural R&D priorities and maximise collaboration with RDCs and the broader agriculture sector.

The focus for the second year of the 2020-25 strategic plan remains biosecurity, in particular, industry engagement regarding the ASF readiness plan.

We are also bolstering our R&D plan in the areas of eating experience, biosecurity leadership and cost of production and processing. We are also focussed on knowledge management, producer engagement, market testing and clarification of the eating experience.

> THESE THEMES HAVE BEEN DEVELOPED TO ENSURE STRATEGIC ALIGNMENT WITH R&D PRIORITIES AND MAXIMISE COLLABORATION WITH THE BROADER AGRICULTURE SECTOR

STRATEGIC THEME **ONE**



Market and product differentiation

Diversity of markets and products

Research completed in June 2021 has helped identify valuable markets, products or categories that represent currently untapped opportunities for Australian pork.

The focus for this year will be to convert these findings into commercial opportunities in collaboration with a broad spectrum of innovation partners.

Quality consumer eating experiences

There are two pillars for the progress of eating experience. Firstly, abattoirs, accounting for over 85% of slaughters collaborated in piloting additional measurements to improve control and consistency of carcases and yield.

This year will see the validation of outcomes with further consumer testing before seeking adoption of measures to reduce eating experience failures.

Whilst phase one is in implementation, phase two, which targets creating remarkable (so good they are worth talking about) eating experiences, will commence.

Valuable provenance of Australian

The value of Australian pork in ham and bacon was trialled in Adelaide from March to June 2021.

We have undertaken thorough measurement and evaluation of the Adelaide campaign, in collaboration with processors and retailers.

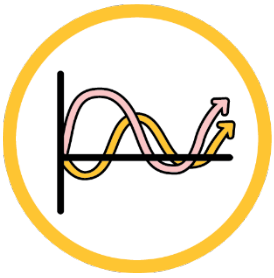
The aim moving forward is ideally to chart a "whole of chain" way forward that benefits the community, the economy, and commercial value chain participants.

However, creating noticeable differences that are valuable (i.e. worth paying for) and are unique to Australian pork versus imported pork has proven challenging.

A Sustainability Framework has been created and presented to producers (via the Delegate system). This framework is being investigated with the community to understand the needs of Australians before we start to tell the Story of Australian Pork in the 2021-22 financial year.

In addition, opportunities exist to lock in leadership positions as we did a decade ago (2010) with the voluntary withdrawal of gestation stalls and use these in international trade to benefit Australian producers.

> WE INTEND TO CONTINUE COLLABORATING WITH WILLING PARTNERS IN BOTH RETAIL AND BRAND OWNERSHIP



Manage volatility for viable farms

Timely relevant through-the-chain information

The early part of the 2021-22 year will see the progressive streamlining and alignment of APL's digital strategy, with a particular focus on our websites.

This will both simplify and improve the user's experience whether they are a producer looking for research reports, or a consumer interested in our industry.

Concurrent to the website transformation work, a new information management and project planning platform will be scoped, designed, built, and deployed.

The focus of this initiative is to make sure the information APL has is significantly more available to producers and stakeholders at their convenience.

The outcome will be a tool to help producers access information they need to make their own commercial decisions.

The third part of this program includes working with data holders outside of APL in order to identify areas where we can collaborate for mutual benefit.

Reduce cost of production

Progress in sourcing inspiration for new research in areas of improved herd health, alternate feed sources and improved productivity has been significant in the first six months of 2021.

The 2021-22 plan is for these inspirations to become R&D projects that can be commercialised.

The goal is to make a five- fold increase in likely portfolio impact. Using cross-APL skill sets will be needed to reach this ambition.

Diversified pig business extension opportunities

Feedback from producers has been that while diversification is good to have, it is not APL's central remit.

APL has listened to feedback and as such deprioritised this as an initiative for this year of operation. We will achieve progress by offering support to valuable producer initiatives.

STRATEGIC THEME **THREE**

Drive consumer demand

Production is forecast to grow during 2021-22. As a consequence, the Get Some Pork on Your Fork (GSPOYF) activity will be funded from both Maintain domestic fresh demand and grow domestic demand.

For simplicity in reading, GSPOYF will be described as the former and Differentiation activity will be described as the latter.

Maintain domestic fresh demand

GSPOYF activity includes direct consumer communication and collaboration via mutually agreed plans with retailers and supply chains.

Whilst the current strategy appears to be competitively successful with fresh pork's share growth continuing to exceed other proteins, the marketing and communications teams believe they have identified a way to accelerate progress. While maintaining current activity, the teams will develop this new line of acceleration thinking for implementation once validated.

Grow domestic demand

APL has now completed its trial of mass-educating South Australians that the majority of ham is imported. This campaign had ambitious growth targets of Australian pork's share, particularly in the ham category.

This AOP includes provision for analysis of this experiment, to decide whether to extend the roll-out in other states. It also enables APL to fund continuation activity in South Australia assuming the experiment is successful.

Grow targeted international demand

The industry's international strategy has previously focused on four countries: Singapore, Hong Kong, Japan, and Vietnam.

International business development in 2020-21 was frustrated both by travel bans and by team member departures.

The new team are working energetically, with a 2021-22 focus on Japan as a market, which has been agreed with the major pork exporters.

Work has commenced to help understand Japan from the perspective of culture, market expectations and quality specifications.

Where exports are already growing or established, industry exporter collaboration has determined APL's role is more a support when requested than a lead.

> WE SEEK TO INFLUENCE BOTH THE PERCEPTIONS AND BEHAVIOURS OF CONSUMERS TO DEMAND AUSTRALIAN PORK WHEREVER THEY ARE EATING.

STRATEGIC THEME **FOUR**

Leading community social licence

Leaders in animal care

Governmental priorities changed in 2017 which meant a delay to the scheduled review of the Standards and Guidelines for pig production.

Given the Australian pork industry had already voluntarily voted to remove gestation stalls in 2010, the industry decided to proactively move towards agreeing new Standards and Guidelines.

Having completed a scientific review in 2018, APL has updated the Guidelines. Moving forward, we will seek to work with regulatory bodies to proactively drive new Standards and Guidelines, even if that means that pork industry is test-case for a new approach.

Legislating the voluntary removal of gestation stalls will be the focus of this program this year.

Biosecurity leadership

Both the Australian pig industry and state and federal government bodies have learned a great deal about each other over the last year.

These insights will become the focus of adoption practices on-farm in the 2021-22 year. **This is one of our top three priorities.**

In addition to on-farm adoption, the use of apps, with the extension of PigPass and ideally the incorporation of other digital biosecurity tools and apps will be a focus.

Leveraging the deep co-operation between the pig industry and all levels of government during 2020-21, APL now seeks to collaborate and share learnings across commodities. This will be done in collaboration with Animal Health Australia's Animal Health Committee, via a working group.

Climate friendly farming

R&D investigations continue into technologies to recover on-farm water and to process manure on-farm into a feed source.

Research has shown that pig production is perceived by Australians as being more environmentally responsible than any other animal production industry.

The first half of the 2021-22 year will focus on finalising roadmaps to waste reduction and carbon reduction targets.

The second half of the year will be guided by the outcomes of these roadmaps and our extensive community research.

Early indications show our industry may be perceived as a leader in recycling by the Australian community, and this will help form our focus for communications over the coming year.

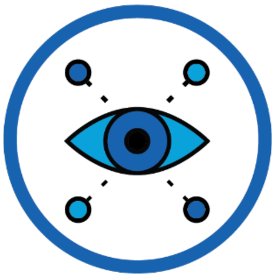
Industry visibility

The new Australian pork website is a major initiative in this space, and ongoing enhancements will continue to deliver visibility of our industry to the community.

In addition, where COVID-19 delayed the virtual reality pig tour, it is now set to be completed 2021-22.

> AFRICAN SWINE FEVER WILL REMAIN THE SINGLE BIGGEST PRIORITY FOR THE AUSTRALIAN PORK INDUSTRY THIS YEAR

STRATEGIC THEME **FIVE**



Building industry shared vision

Producer Relations (shared values)

The producer relations team has established itself to offer improved and more extensive customer service to producers. The team is multi-skilled APIQ✓®, PigPass, pig industry reporting. This year, the team is seeking to extend our reach into building industry capacity and capability, in collaboration with our Policy and Research and Innovation teams. These will target education, industry recruitment and industry leadership development opportunities.

The producer relations team will work closely with the communications team. Communications provide support for industry publication, weekly industry updates as well as being the primary point of contact for media enquiries, events, publications, and social media engagement.

Technology Adoption

Resourcing in this area will be increased in the 2021-22 year. The Producer Relations team have measured the levels of awareness, adoption, and adoption retention of selected R&D outcomes. These facts highlight just how big an opportunity there is for industry and APL to progress in this area.

Major initiatives that will help drive adoption are an easier to navigate website, the appointment of an additional dedicated extension officer, targeting R&D outcomes by producer and increased funding to be able to communicate R&D outcomes more than once.

This will obviously continue to require close collaboration across the Producer Relations, Communications, and Research and Innovations teams.

For this year, communicating R&D outcomes will continue to be more personalised through conversations between producers and the producer relations team.

Organisational effectiveness

The major activities in this area include targeting the new IT platform to support getting better information tools to producers and aligning the whole APL team on the thoughts of “Driving Innovation” and “Valuable Provenance”. In addition, the leadership training that started inside APL in January 2021, will continue in order to help the whole APL team perform at their best.

INDUSTRY OUTCOMES

Targets and key performance indicators

APL is an outcome driven organisation. The targets and KPIs we develop are consistent with both the Strategic Plan and the resource we dedicate to each target.

Wherever possible, we select investments and activities that offer improvements to multiple targets as well as strategic Key Result Areas (KRAs).

To demonstrate alignment with strategy, the following pages contains a table incorporating the focused portfolio of strategic KRAs and the additional operating KPIs for this 2021-22 AOP.

Despite having multiple KRAs and KPIs, APL has a high degree of focus on three outcomes:

1. Deliver as one team to keep producers as sustainable and biosecure as possible.
2. Demonstrate R&D acceleration that creates significant momentum towards transforming industry outcomes.
3. Increase focus on diversifying markets as a method of mitigating the risk of volatility.

WE SELECT INVESTMENTS AND ACTIVITIES THAT OFFER IMPROVEMENTS TO MULTIPLE TARGETS

TABLE 1 – APL KRAs and KPIs

Strategic theme	Strategic KRA	AOP KPI	Measure	FY 2021 Estimate	FY 2022 Target
Market and product differentiation	Increased diversity of products and markets		Number of new markets or incremental revenue opportunities worth over $50m revenue (includes premium) in a full year identified	7	Further 10 identified
	Increased diversity of products and markets	$50m+ markets entered	Number (in addition to Japan and South Australian Experiment)	0	1
		Consistent consumer eating experience	% of carcasses outside target pH range	23%	10%
	Valuable provenance of Australian	Publicise the story of Australian pork	Stakeholder opportunities to see	N/A	30 million
Manage volatility for viable farms		Timely relevant through the chain information	Deploy integrated information platform as an industry decision making support	Does not exist	Exists
	Cost of production and kill Fee		Reduction in cost of production index from 2020 benchmark (excl. grain cost changes)	100	94
	Cost of production and kill Fee	Build a portfolio of projects with the potential to deliver impact	Cents per kilo	4	20
Drive consumer demand	Fresh pork consumption		Consumption per Australian (kg/HSCW)	10.6	11.0
		Increase "Everyday meals" association	Percentage of Australians making the association	32%	35%

Strategic theme	Strategic KRA	AOP KPI	Measure	FY 2021 Estimate	FY 2022 Target
		Adelaide trial - grows SA everyday Australian ham share	Volume share % versus last year	14%	24% (South Australia only)
		Charted way forward in ham and bacon	Agreed way forward with funding source	Does not exist	Exists
		Farm gate revenue	Deliver 4% meat volume sales growth @ an average price of $3.46/kg CWE)	+6.9% $3.54	+4.0% $3.46
Leading community social licence	Social license leadership positions taken		Number of leadership positions defined	1	3
		Climate friendly farming	Number of leadership positions defined	0	2
		Climate friendly farming	Percentage of national herd covered by LCA	Unknown	20%
	New exotic animal disease outbreaks		Number of outbreaks	0	0
		ASF appropriate on-farm biosecurity plan complete	60% of sows covered by industry agreed voluntary enhanced biosecurity plans APL has copies of small-producer biosecurity plans	Unknown 2	60% 100
Building industry shared vision	Increased on-farm adoption		Percentage of Members adopted some extended R&D in the last decade	26% (of top 10 in last decade)	36%

Strategic theme	Strategic KRA	AOP KPI	Measure	FY 2021 Estimate	FY 2022 Target
		Members are aware of the specific list of adoption opportunities (10 selected from research conducted between 18/19 to 21/22)	% of Members	59% (of top 10 in last decade)	60%
	Percentage of Members who can recall APL adoption this year	Member adoption rate (10 selected from research conducted between 18/19 to 21/22) in the last 12 months	% of Members	0%	10%

**THESE MEASURES DO NOT YET HAVE A BASELINE IN 2020 AND ARE ESTIMATES ONLY*

TABLE 2 – CONCISE BUDGET MODEL

Account	R&D	Non-R&D	FY22 AOP
Trading Income			
APL Income			
Levy Income	5,500,000	12,375,000	17,875,000
Matching Income	6,830,921		6,830,921
Other Income		160,500	160,500
Total APL Income	**12,330,921**	**12,535,500**	**24,866,421**
Grant Income		1,241,450	1,241,450
Total Trading Income	**12,330,921**	**13,776,950**	**26,107,871**
Project Costs			
APL Project Costs			
1. Market and Product Differentiation			
Total Diversity of Markets	601,444		601,444
Total Quality Consumer Eating Experiences	752,000		752,000
Total Valuable Provenance of Australian Pork	192,500	625,000	817,500
Total 1. Market and Product Differentiation	**1,545,944**	**625,000**	**2,170,944**
2. Manage Volatility for Viable Farms			
Total Thru-the-chain information	399,000	50,000	449,000
Total Reduce Cost of Production & Processing	3,046,320	-	3,046,320
Total 2. Manage Volatility for Viable Farms	**3,445,320**	**50,000**	**3,495,320**
3. Drive Consumer Demand			
Total Grow Domestic Demand	34,000	135,000	169,000
Total Maintain Domestic Fresh Demand	675,000	6,703,000	7,378,000
Total Grow International Demand	171,000	100,000	271,000
Total 3. Drive Consumer Demand	**880,000**	**6,938,000**	**7,818,000**
4. Leading Community Social Licence			
Total Biosecurity Leadership	688,500	10,000	698,500
Total Climate Friendly Farming	998,830	-	998,830
Total Leaders in Animal Care	362,272	86,000	448,272
Total Industry Visibility	428,500	104,500	533,000
Total 4. Leading Community Social Licence	**2,478,102**	**200,500**	**2,678,602**
5. Building Industry Shared Vision			
Total Producer Relations - (Shared Values)	320,000	70,000	390,000
Total Technology Adoption	685,800	385,800	1,071,600
Total Organisational Effectiveness	419,369	587,369	1,006,738
Total 5. Building Industry Shared Vision	**1,425,169**	**1,043,169**	**2,468,338**
Total APL Project Costs	**9,774,535**	**8,856,669**	**18,631,204**
Grant Costs		1,665,087	1,665,087
Total Project Costs	**9,774,535**	**10,521,756**	**20,296,291**
Gross Profit			**5,811,580**
Operating Expenses			
Operating Expenses	597,808	653,622	1,251,430
Employment Costs	3,122,305	3,413,815	6,536,120
Travel	167,195	182,805	350,000
Total Operating Expenses	**3,887,308**	**4,250,242**	**8,137,550**
APL Surplus/(Deficit)			**(1,902,333)**
Government Grants Surplus (Deficit)			(423,637)
Net Surplus (Deficit)			**(2,325,970)**

Australian Pork Limited

ABN 83 092 783 278

Level 2, 2 Brisbane Avenue Barton ACT 2600
PO Box 4746 Kingston ACT 2604 Australia

T: 02 6285 2200 • F: 02 6285 2288

www.australianpork.com.au