



# Australian Agricultural Company Limited

ABN 15 010 892 270

## **FINANCIAL REPORT**

**For the year ended  
31 March 2016**

Your Directors submit their report for the year ended 31 March 2016.

### Directors

The names and details of the Company's Directors in office during the financial period and until the date of this report are set out in the following section. All of the Directors were in office for the entire period unless otherwise stated.

#### Donald McGauchie AO, FAICD (Non-executive Chairman)

Mr McGauchie was appointed a Director on 19 May 2010 and subsequently Chairman on 24 August 2010. Mr McGauchie is the Chairman of the Nomination Committee and a member of the Staff and Remuneration Committee.

Mr McGauchie is currently a Director of James Hardie Industries plc, Chairman of Nufarm Limited and Director of GrainCorp Limited. His previous roles with public companies include Chairman of Telstra Corporation Limited, Deputy Chairman of Ridley Corporation Limited, Director of National Foods Limited, Chairman of Woolstock, Chairman of the Victorian Rural Finance Corporation (statutory corporation), and also President of the National Farmers Federation. During 2011 he retired as a member of the Reserve Bank Board. In 2001 Mr McGauchie was named the Rabobank Agribusiness Leader of the Year, was later awarded the Centenary Medal for services to Australian society through agriculture and business and in 2004 was appointed an Officer of the Order of Australia.

During the past three years, Mr McGauchie has served as a Director of the following listed companies:

- > James Hardie Industries plc\* – Appointed August 2003;
- > Nufarm Limited\* – Appointed December 2003; and
- > Graincorp Limited\* – Appointed December 2009.

\* Denotes current Directorship

#### Jason Strong

Mr Strong was appointed Managing Director/Chief Executive Officer on 24 January 2014. Mr Strong attends all Board Committee meetings by invitation.

Mr Strong has more than 25 years' experience across the beef supply chain, and brings significant industry knowledge, commercial experience and strategic marketing capabilities to the Company. He joined AACo in 2012 from Meat & Livestock Australia where he was Regional Manager Europe with responsibility for European and Russian markets.

Prior to the MLA stint in Europe he was Head of New Market Development for Pfizer Animal Genetics and Manager of the Meat Standards Australia Grading Services.

Mr Strong has been actively involved in broader industry activities as a past Chairman and Director of the Australian Beef Industry Foundation and one of the drivers behind the Intercollegiate Meat Judging program.

During the past three years, Mr Strong has not served as a Director of any other listed company.

#### Stuart Black AM, FCA, FAICD, BA (Accounting)

Mr Black was appointed a Director on 5 October 2011. Mr Black is Chairman of the Audit and Risk Management Committee and a member of the Nomination Committee.

Mr Black has extensive experience in agribusiness. He is a current non-executive director of NetComm Wireless Limited, a former director of Coffey International Limited, and a Past President of the Institute of Chartered Accountants of Australia. He was the inaugural Chair and is a current Board Member of the Australian Accounting Professional and Ethical Standards Board. Mr Black is Chairman of the Chartered Accountants Benevolent Fund Limited and a director of Country Education Foundation of Australia Limited.

In 2012 he was appointed a Member of the Order of Australia for services to the profession of accounting, to ethical standards, as a contributor to professional organisations and to the community.

During the past three years Mr Black has served as a Director of the following listed companies:

- > Coffey International Limited – resigned November 2014; and
- > NetComm Wireless Limited\* – Appointed March 2013

\*Denotes current Directorship

### Directors (continued)

#### David Crombie AM, BEcon (UQ)

Mr Crombie was appointed a Director on 5 October 2011. Mr Crombie is Chairman of the Staff and Remuneration Committee and is a member of the Audit and Risk Management Committee and the Nomination Committee.

Mr Crombie is a Director of Alliance Aviation Services Limited and Barrack Street Investments Limited. He was a founding Partner and is currently a Non-executive Director of the Palladium Group (formerly GRM International). He is former Commissioner of the Australian Centre for International Agricultural Research (ACIAR) and a Director of Foodbank (QLD). Mr Crombie is a former President of the National Farmers Federation, former Chairman of MLA and a former Director of Grainco Australia, the Meat Industry Council and Export Finance Insurance Corporation.

Mr Crombie operates family properties, breeding cattle and farming in southern Queensland.

During the past three years Mr Crombie has served as a Director of the following listed companies:

- > Alliance Aviation Services Limited\* – appointed 26 October 2011; and
- > Barrack Street Investments Limited\* – appointed 9 June 2014.

\* Denotes current Directorship

#### Tom Keene B Ec, FAICD

Mr Keene was appointed a Director on 5 October 2011. Mr Keene is a member of the Audit and Risk Management Committee, the Nomination Committee and the Staff and Remuneration Committee. He was also Chairman of the Livingstone Beef Subcommittee until it was discontinued on 7 September 2015.

Mr Keene has had an extensive career in agriculture and is the former Managing Director of Graincorp Limited, and is currently a Director of the integrated timber business Midway Limited. He is also the former Chairman of Grain Trade Australia Limited and a former Director of Cotton Seed Distributors Limited.

In 2007, Mr Keene was named the NAB Agribusiness Leader of the Year.

During the past three years Mr Keene has not served as a Director of any other listed company.

#### Dr Shehan Dissanayake Ph.D.

Dr Shehan Dissanayake was appointed a Director on 27 April 2012 and is a member of the Nomination Committee. Dr Dissanayake is a senior Managing Director and member of the Board of Directors of the Tavistock Group, a privately held investment company. He has responsibility for portfolio strategy across 200 companies in 15 countries, and is CEO of Tavistock Life Sciences, an operating unit of the Tavistock Group.

Before joining Tavistock Group in 2002, Dr Dissanayake was a Managing Partner of Arthur Andersen with responsibility for strategy and business planning for the global legal, tax and HR Consulting Divisions of the firm, encompassing 1,600 partners and 15,000 professionals.

Earlier in his career, Dr Dissanayake was involved in the medical research and technology industries. He holds a Ph.D. in Pharmacological and Physiological Sciences from the University of Chicago.

During the past three years Dr Dissanayake has not served as a Director of any other listed company.

#### Anthony Abraham BEc LLB (Accountancy and Law)

Mr Abraham was appointed a Director on 7 September 2014. Mr Abraham is Chair of the Brand and Marketing Committee and a member of the Nomination Committee. Mr Abraham holds a range of continuing non-executive directorships with companies within or associated with the Macquarie Group.

Mr Abraham enjoyed 21 years in investment banking with the Macquarie Group gaining extensive experience in the finance sector. In 2003 Mr Abraham established Macquarie's agricultural funds management business and led the business until he departed in 2011, at which time it had grown into a significant operation both in Australia and Brazil.

During the past three years Mr Abraham has served as a Director of the following listed companies:

- > Tandou Limited – resigned 28 October 2013.

#### Neil Reisman JD

Mr Reisman was appointed a Director on 10 May 2016 and will stand for election as a Director at the Company's Annual General Meeting in July 2016. Mr Reisman is a Managing Director and member of the Board of Directors of the Tavistock Group. Since joining the firm in 2004, he has held multiple roles including chairing Tavistock Group's Investment Committee and having the General Counsel and Chief Financial Officer report into him.

Mr Reisman spends most of his time working with portfolio companies within the Tavistock Group. He has more than 30 years of business experience with emphasis on operations, legal, tax and finance. Previously, Mr Reisman worked at various multinational companies, including Arthur Andersen and Amoco Corporation. He received his juris doctor in 1986 from the University of Pennsylvania Law School and his bachelors of science in Accountancy in 1983 from the University of Illinois.

During the past three years Mr Reisman has not served as a Director of any other listed company.

## Directors' Report (continued)

### Company Secretary

Bruce Bennett BCom, LLB, ACIS, MAICD

Mr Bennett was appointed Company Secretary and General Counsel in November 2006. Before joining the Company, he had held positions including partner and special counsel in leading law firms, where he specialised in company and property law, mergers and acquisitions and other commercial contracts. He has over 25 years' experience in legal practice, having practised in both Queensland and New South Wales. Mr Bennett is a Chartered Secretary and a member of the Australian Institute of Company Directors.

### Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the Directors in the shares, options and performance rights of Australian Agricultural Company Limited were:

<i>CURRENT DIRECTORS</i>	<i>ORDINARY SHARES</i>	<i>OPTIONS OVER ORDINARY SHARES</i>	<i>PERFORMANCE RIGHTS</i>
D. McGauchie	1,020,774	Nil	Nil
J. Strong	40,587	Nil	60,182
S. Black	40,000	Nil	Nil
D. Crombie	60,000	Nil	Nil
T. Keene	50,000	Nil	Nil
Dr. S. Dissanayake	1,275,000	Nil	Nil
A. Abraham	Nil	Nil	Nil

### Dividends and earnings per share

<i>EARNINGS PER SHARE</i>	<i>31 MAR 2016 CENTS</i>	<i>31 MAR 2015 CENTS</i>
Basic earnings per share	12.7	1.8
Diluted earnings per share	11.6	1.8

No final or interim dividends were declared or paid during the current and prior financial periods.

## Operating and Financial Review

### About AACo

The Australian Agricultural Company (AACo) is an Australian beef company with a heritage dating back to 1824. AACo is Australia's largest integrated cattle and beef producer, and is the oldest continuously operating company in Australia.

### AACo's business activities

AACo owns and operates a strategic balance of properties, feedlots, farms and a processing facility comprising around 6.4million hectares of land, which equates to roughly 1% of Australia's land mass. AACo specialises in grassfed beef and grainfed beef production. The Company runs Australia's largest herd of Wagyu cattle, producing high grade Wagyu beef which is exported to more than 20 countries around the world. AACo employed 592 employees calculated on a full time equivalent basis as at 31 March 2016 (31 March 2015: 584).

### AACo's Business Model

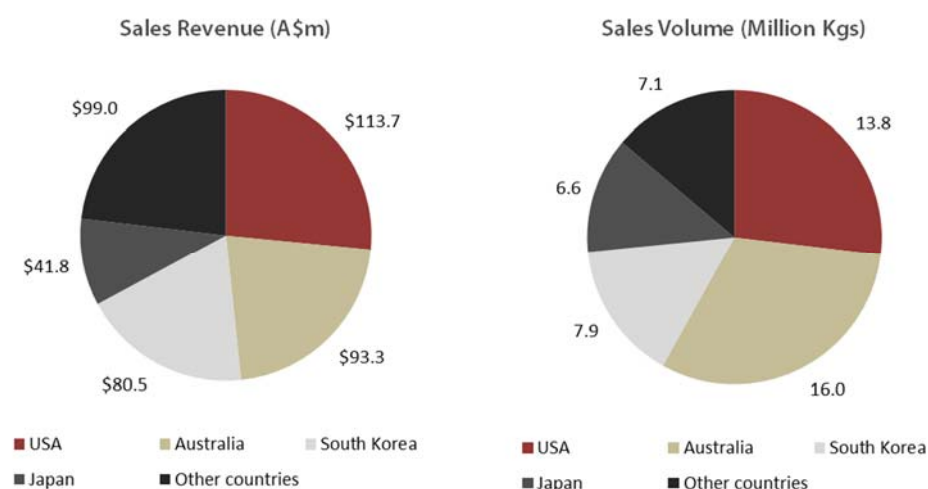
AACo is a fully integrated branded beef business with three principal activities:

- > Ownership, operation and development of pastoral properties;
- > Production of beef including breeding, backgrounding, feedlotting and processing of cattle; and
- > Sales and marketing of high quality branded beef into global markets.

AACo operates an integrated cattle production system across 18 owned cattle stations, 2 leased stations, 11 agisted properties, 2 owned feedlots, a beef processing facility and 2 owned and 1 external farms located throughout Queensland, New South Wales, the Northern Territory and Western Australia.

AACo distributes branded beef to a range of customers across the world, tailoring its route-to-market model by country to capitalise on regional opportunities. Despite having the largest cattle herd in the world, AACo produces less than 1% of beef consumed globally. The Company is therefore large enough to obtain production efficiencies but small enough to target key markets and customers.

Marketing and selling its branded beef is where AACo generates revenue and profits. The charts below show the volume and sales contribution by region in FY16.



Branded Beef Revenue from External Customers	31 MAR 2016 \$'000	31 MAR 2015 \$'000	MOVEMENTS %
USA	113,691	37,920	200%
Australia	93,346	78,744	19%
South Korea	80,472	51,546	56%
Japan	41,754	29,974	39%
Other Countries	99,009	69,438	43%
Total Revenue	428,272	267,622	60%

## Operating and Financial Review (continued)

### Global industry overview

Global food demand is expected to increase by 70% by 2050, driven largely by rising affluence and living standards in the developing world, which is leading a shift towards higher protein diets and demand for red meat in the emerging economies in South East Asia.

The middle class in the world is expected to grow at the highest rate over the next 20 year period than has ever been seen in human history. By 2030 there will be 3 billion middle class people in the world, all with the capacity and willingness to pay for a premium product. As incomes increase, consumers are more likely to expect greater taste and more enjoyment from eating premium quality beef.

AACo is now a global leader in Wagyu beef production, which is one of the most exciting and rapidly growing premium food products in the world. AACo's future growth strategy is largely centred on further strengthening our leadership positions and continuing to focus on supplying premium products to key customers and markets globally while maximising our share of margin from the supply chain.

### Key Financial Indicators Used by Management

	<b>31 MAR 2016</b>	<b>31 MAR 2015</b>	<b>MOVEMENTS</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Meat sales	428,272	267,622	160,650
Cattle sales	61,084	70,546	(9,462)
Administration costs	(26,995)	(25,793)	(1,202)
Statutory EBITDA <sup>(1)</sup>	132,167	44,947	87,220
Statutory EBIT	117,898	32,849	85,049
Net profit/(loss) after tax	67,807	9,623	58,184
Net cash (outflow)/inflow from operating activities	21,789	(75,881)	97,670
Operating EBITDA <sup>(1)</sup>	14,797	(3,591)	18,388

<sup>(1)</sup> Refer to page 7 and page 8 for the definition of Statutory EBITDA and Operating EBITDA, both of which are considered non-IFRS information and have not been reviewed by the Company's auditors.

The measure of Operating EBITDA is a key indicator which is used to monitor and manage the Company. It eliminates the potential distraction caused by unrealised cattle valuation adjustments being recorded in the financial results, and is a better reflection of actual financial performance under the control of management. Hence the Company believes that external stakeholders benefit from this metric being reported.

Whilst Statutory EBITDA was a profit of \$132.2m in FY16 (\$44.9m in FY15), Operating EBITDA was a profit of \$14.8m (\$3.6m loss in FY15). Operating EBITDA does not include unrealised livestock gains, while Statutory EBITDA does include unrealised livestock gains.

### AACo's Reportable Segments

During FY16, the structure of financial information provided to senior management and the Board of Directors has changed. The change has impacted segmental reporting included in the Company's financial statements. AACo's systems of internal reporting to key management personnel is such that there is only one reportable segment as defined in AASB 8, being the "production and sale of beef".

Under the new internal reporting framework, the segments (also previously referred to as 'verticals') of Grass, Grain, Northern Beef and Corporate are no longer presented. The business is entirely focused on the "production and sale of beef" through an integrated supply chain. However, the Company has provided relevant information in the Appendix 4E to assist users of the financial report during the period of change.

## Operating and Financial Review (continued)

### Statutory Financial Results

	<b>31 MAR 2016</b>	<b>31 MAR 2015</b>	<b>MOVEMENTS</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Meat sales <sup>(1)</sup>	428,272	267,622	160,650
Cattle sales <sup>(1)</sup>	61,084	70,546	(9,462)
<b>Sales revenue</b>	<b>489,356</b>	<b>338,168</b>	<b>151,188</b>
Cost of meat sold	(335,145)	(238,764)	(96,381)
Cattle fair value adjustments <sup>(2)</sup>	274,578	209,900	64,678
Deemed cost of live cattle sold <sup>(3)</sup>	(61,084)	(70,546)	9,462
Cattle expenses	(128,614)	(98,451)	(30,163)
<b>Gross operating margin</b>	<b>239,091</b>	<b>140,307</b>	<b>98,784</b>
Other income	10,181	12,460	(2,279)
<b>Expenses</b>			
Employee expenses	(50,808)	(43,196)	(7,612)
Administration costs	(26,995)	(25,793)	(1,202)
Other operating costs	(30,356)	(29,110)	(1,246)
Property costs	(8,946)	(9,721)	775
Operating expenses <sup>(4)</sup>	(117,105)	(107,820)	(9,285)
<b>Earnings from operations – Statutory EBITDA<sup>(5)</sup></b>	<b>132,167</b>	<b>44,947</b>	<b>87,220</b>
Depreciation and amortisation	(20,450)	(15,710)	(4,740)
Change in fair value of property	6,181	3,612	2,569
<b>Earnings from operations – Statutory EBIT<sup>(5)</sup></b>	<b>117,898</b>	<b>32,849</b>	<b>85,049</b>
Finance costs	(20,816)	(20,793)	(23)
<b>Profit before income tax</b>	<b>97,082</b>	<b>12,056</b>	<b>85,026</b>
Income tax expense	(29,275)	(2,433)	(26,842)
<b>Net Profit after tax</b>	<b>67,807</b>	<b>9,623</b>	<b>58,184</b>

<sup>(1)</sup> Sales are recognised when the risks and rewards of ownership have transferred.

<sup>(2)</sup> Cattle fair value adjustments arise from increased weight as the cattle grow, market value changes in the herd, natural increase, attrition and rations. Natural increase is the value change associated with new calves entering the herd. These fair value adjustments are non-cash.

<sup>(3)</sup> In accordance with accounting standard AASB 141 Agriculture, the value changes that determine gross margin occur prior to the point of sale. As the asset is always biologically changing no sales margin emerges at the point of sale under the accounting standard.

<sup>(4)</sup> Operating expenses include Livingstone Beef Processing Facility overheads. The increase in operating expenses across the Company has been impacted by the increase in activity at the Livingstone Beef Processing Facility.

<sup>(5)</sup> EBIT (earnings before interest and tax) and EBITDA (earnings before interest, tax, depreciation and amortisation)

## Operating and Financial Review (continued)

### Statutory Financial Results (continued)

Sales revenue has increased by 45% compared to the previous corresponding period (FY15), and in-line with the strategy, sales continue to shift towards higher value branded beef as opposed to live cattle. The value of sales of branded beef has increased by over 60% compared to the prior corresponding period, driven by both increased volumes and improved pricing in both our Wagyu and Shortfed programs. Branded beef sales now account for over 88% of total revenue (compared to 79% in FY15).

The sale of live cattle to third-party producers and processors has reduced (down 13% compared to FY15) and, to the extent possible, been diverted to support the growth in beef sales. Where the internal supply of cattle has not been sufficient to meet the demand of beef customers, purchases of both feeder and finished cattle have been made. Much of this supplemental purchasing activity has occurred in a strong pricing environment for live cattle. While in the short term this has put pressure on margins, we are confident that our long term vertical integration strategy is sound.

### Reconciliation of Operating EBITDA to Statutory EBITDA

The tables below demonstrate the reconciliation of the underlying performance measures of the Company from Statutory EBITDA to Operating EBITDA. The measures are defined as:

- > Statutory EBITDA per the statutory accounts (refer page 7 for definition).
- > Operating EBITDA, a measure that uses a standard price for the cattle component of cost of goods sold rather than utilising a market price, which is subject to volatility. Operating EBITDA assumes all Livestock inventory is valued on a \$/kg live-weight (lwt) basis. The standard cost used is based on a 5 year average of production and cost data.

Under the Operating EBITDA methodology, inventory moves onto the balance sheet at a predefined standard. Any production or purchasing differences from the standards are recognised as variances in the period. At the point of sale, a margin against standard cost is realised.

This is in contrast to Statutory EBITDA where inventory moves on and off the balance sheet at a market price and the effect of market price movements are reflected at the balance date rather than the point of sale. Therefore, the tables below imply that at 31 March 2016 there was a \$117.4m 'unrealised gain' driven by a mixture of inventory changes and market price changes as opposed to at 31 March 2015 where there was a \$48.5m 'unrealised gain'.

	31-Mar-16 \$000	31-Mar-15 \$000
Operating EBITDA	14,797	(3,591)
Difference between the movement of livestock inventory at standard cost versus market value	117,370	48,538
Statutory EBITDA	132,167	44,947
Depreciation and Amortisation	(20,450)	(15,710)
Change in fair value of property	6,181	3,612
Statutory EBIT	117,898	32,849
Net finance costs	(20,816)	(20,793)
Income tax expense	(29,275)	(2,433)
Net profit after tax	67,807	9,623



## Operating and Financial Review (continued)

### Herd Profile and Movements

The closing herd size has decreased by 12% or 70.9 thousand head (24.9 mil kg LW) in FY16. This included a 19 thousand head attrition adjustment. The Company's ability to estimate attrition has improved because of the ongoing investment in individual animal identification systems. Despite the adjustment to the estimation of attrition in FY16, the Company's internal benchmarks continue to align with industry estimations of attrition from comparable scale operations across the regions that AACo operates in. The closing herd position was also impacted by lower cattle purchases. The Company limited supplemental purchasing activity in the strong live cattle pricing environment experienced during FY16, however the breeding herd remained strong and stable. Furthermore, the average age of the Grassfed cow breeding herd improved from 7 years in FY15 to 6 years in FY16.

Head ('000)	31 Mar 2016	31 Mar 2015
Opening balance	597.6	552.1
Brandings	125.4	127.8
Attrition	(16.5)	(16.6)
Attrition – adjustment	(19.2)	-
Purchases - Live	95.3	118.2
Purchases - Finished	29.2	33.5
Sold Live	(64.0)	(91.0)
Movement in unbranded calves	(3.3)	0.8
Processed and sold as beef	(217.8)	(127.2)
Closing balance	526.7	597.6

Closing balance consists of:

Breeding and stud cattle	265.6	281.4
Trading cattle	130.3	175.9
Feedlot cattle	48.2	54.4
Unbranded calves	82.6	85.9

Kilograms live weight (mil)	31 Mar 2016	31 Mar 2015
Opening balance	216.0	188.8
Weight produced	68.0	75.8
Attrition – adjustment	(7.8)	-
Purchases - Live	36.8	38.3
Purchases - Finished	18.2	19.8
Sold Live	(22.6)	(34.1)
Movement in unbranded calves	(0.5)	0.5
Processed and sold as beef	(117.0)	(73.1)
Closing balance	191.1	216.0

Closing balance consists of:

Breeding and stud cattle	111.8	118.5
Trading cattle	43.4	58.8
Feedlot cattle	25.0	27.3
Unbranded calves	10.9	11.4

## Operating and Financial Review (continued)

### Operations

#### Sourcing

Any shortfall in meeting customer demand is supplemented by purchasing finished cattle from third parties for processing and store cattle for backgrounding and feedlot operations. Strong increases to cattle prices on the back of improving climatic conditions have led to an increased cost of cattle in FY16.

	31 MAR 2016	31 MAR 2015
Cattle purchases – mil kg LW <sup>(1)</sup>	36.8	38.3
Cattle purchases – \$/kg LW	2.74	2.12
Finished cattle purchases – mil kg HSCW <sup>(1)</sup>	9.9	11.6
Finished cattle purchases – \$/kg HSCW	5.30	4.38

#### Production

Kilograms produced were 15.7 mil kgs lower than the prior corresponding period due to a smaller herd size. Cost of production has increased due to additional transport and logistics costs associated with transferring cattle internally through the supply chain.

	31 MAR 2016	31 MAR 2015
Kilograms produced – mil kg LW	60.1	75.8
Cost of production – \$/kg HSCW	3.00	2.13

#### Processing

The cost of third party toll processing increased marginally as we have increased the specification and complexity of cuts and product breakdown.

	31 MAR 2016	31 MAR 2015
Third party gross processing cost – \$/kg HSCW (12 month average)	1.23	1.16

#### Sales and Marketing

The volume of both Wagyu and Shortfed/Other branded beef sales have increased in line with the Company's strategy of adding value by increasing the quantity of cattle we process and sell as branded beef. In FY16, Wagyu pricing has continued to improve. The Shortfed/Other pricing has dropped due to the increasing mix of manufacturing beef sales compared to Shortfed beef.

Live sales of cattle to third parties have reduced in line with our strategy of maximising value through the entire supply chain.

	31 MAR 2016	31 MAR 2015
Wagyu revenue – \$ mil	177.4	138.9
Wagyu kgs sold – mil kg CW <sup>(1)</sup>	13.3	11.6
Wagyu sold – \$/kg CW	13.33	11.99
Shortfed/Other revenue – \$ mil	250.9	119.8
Shortfed/Other kilograms sold – mil kg CW	38.1	14.6
Shortfed/Other sold – \$/kg CW	6.58	8.20
Live cattle sales – mil kg LW	22.6	34.1
Live cattle revenue – \$mil	61.1	70.5

<sup>(1)</sup> LW – Live animal weight, HSCW – hot standard carcase weight, CW – carton weight containing saleable boxed meat.

## Operating and Financial Review (continued)

### Operations (continued)

#### Corporate Operating Expenses

Corporate operating expenses have decreased by \$1.1m compared with the prior corresponding period, despite the Company investing an additional \$2.8m in innovation and technology during FY16. AACo continues to monitor overhead expenses, and drive productivity measures, while investing in innovation and technology and marketing.

#### Cattle fair value adjustments

The table below reconciles the cattle fair value adjustments through the Consolidated Income Statement:

	<b>31 MAR 2016</b>	<b>31 MAR 2015</b>
	<b>\$000</b>	<b>\$000</b>
Market value movements	169,783	64,180
Other cattle fair value adjustments	104,795	145,720
<b>Total cattle fair value adjustments</b>	<b>274,578</b>	<b>209,900</b>

Market value adjustments arising from market price changes to the herd values at the close of the period resulted in an unrealised cattle price gain of \$169.8m, driven by an increase in cattle market prices.

Other cattle fair value adjustments have increased due to the increase in the value of the herd occurring in the context of increasing market prices.

#### Depreciation/Amortisation and Change in Fair Value of Property

Total depreciation and amortisation of \$20.5 million is \$4.7 million higher compared to the prior corresponding period, largely driven by depreciation of the Livingstone Beef Processing Facility for a full year in FY16.

The profit and loss impact due to the change in fair value of property, plant and equipment relating to the increase in property values amounts to \$6.2 million, compared with \$3.6 million increase in the prior corresponding period.

#### Interest and Finance Costs

Total interest and finance costs of \$20.8m remained unchanged from the prior corresponding period.

### Risk Management

The Company is committed to identification, measurement and management of material business risks.

The Company's breeding and sales programs to date have produced a herd with the right genetic and age profile to deal with the current and future geographic, weather and market conditions.

Day-to-day production risks are managed by management at stations and overseen by relevant General Managers. Appropriate insurance coverage is maintained in respect of the business, properties and assets.

The Company seeks to further reduce risk through vertical supply chain integration, through the Livingstone Beef Processing Facility.

Price risks are managed, where possible, through forward sales of branded beef and over-the-counter foreign exchange derivatives.

## Operating and Financial Review (continued)

### Capital Structure

The Company's gearing ratio has decreased to 29.0% as at 31 March 2016 compared to 32.5% as at 31 March 2015.

	31 MAR 2016 \$000	31 MAR 2015 \$000
Current interest-bearing loans and borrowings	4,176	4,538
Non-current interest-bearing loans and borrowings:		
Obligations under financeleases	5,769	7,667
Bank loan facility <sup>(1)</sup>	285,000	285,000
Convertibles notes <sup>(1)</sup>	80,000	80,000
Bank guarantees	1,454	1,604
Cash	(14,659)	(12,285)
Net debt	361,740	366,524
Equity employed	886,136	762,298
Gearing (net debt / net debt + equity)	29.0%	32.5%

<sup>(1)</sup> The gearing ratio is calculated utilising the face value of the bank loan facility and convertible notes.

### Net Tangible Assets

The Company's net tangible assets per share was \$1.66 as at 31 March 2016, compared to \$1.43 as at 31 March 2015. Net tangible assets of the Company includes leasehold land assets.

### Dividends

There were no dividends declared or paid during the twelve months to 31 March 2016, and therefore the Company's Dividend Reinvestment Plan (DRP) was inactive throughout the period.

The Company is committed to the reinstatement of dividends and has previously foreshadowed that on a return to sustainable and significant profitable and positive operational cashflows, the Directors will review dividend policy and payments.

### Business Strategies, Likely Developments and Expected Results

The Board has reiterated its commitment to increasing shareholder value through incremental improvements to Return on Capital Employed (ROCE) over time. The goal is to improve the quantity and quality of the Company's earnings by increasing the Company's exposure to generally higher and less volatile global beef prices which are underpinned by rising incomes in both the developed and developing world. The medium term strategy will focus on optimising our supply chains, implementing a differentiated branding strategy and investing in innovation and technology.

### Significant Changes in the State of Affairs

There have been no significant changes in the state of affairs of the Company during the financial year.

### Significant Events After Balance Date

There have been no significant events after the balance date which require disclosure in the financial report.

## Environmental Regulation and Performance

Some regulated areas of operation are:

- > The operations of Goonoo and Aronui Feedlots are regulated by licences issued under the *Environmental Protection Act 1994 (Qld)* and administered by the Queensland Department of Agriculture and Fisheries (DAF). Each feedlot is required to report to the National Pollution Inventory each year with respect to water, air and soil quality. DAFF conducts audits of compliance with licence requirements at regular intervals. The Company recorded no breaches of licence requirements in the year to 31 March 2016.
- > The pumping of water from the Comet River for irrigation and feedlot use at Goonoo Station is subject to licensing under the *Sustainable Planning Act 1997 (Qld)* and the *Water Act 2000 (Qld)*. Regulations specify minimum water flows and heights in the river to allow sufficient environmental flows. Goonoo Station and Wylarah Station have licences to harvest water for irrigation purposes.
- > The pumping of underground water for the prescribed purpose of 'Livestock Intensive' requires licensing and regular reporting and monitoring. The Company has several licences allowing this pumping subject to these regulations and conditions being met.
- > Stock watering facilities which utilise bores, require licensing in Queensland and registration in the Northern Territory.
- > Stock water facilities shared with Queensland Stock Routes are administered by local governments, guided by legislation and framework developed by the Queensland Government. Shared water facilities need to comply with registered Stock Route water agreement requirements. A Permit to Occupy is also required if this facility is unfenced within a station grazing area.
- > Vegetation Clearing Permits are sought under the *Vegetation Management Act 1999 (Qld)* for any clearing required for ongoing operations including but not limited to the development of areas for land use change and the installation of infrastructure such as fence lines and water development.
- > The Company continues to be involved in consultation processes for example in the areas of Water Resource Planning, Wild Rivers legislation and the conversion of land titles in relevant areas.
- > The Company must abide by environmental and other obligations contained in Queensland's State Rural Leasehold Land Strategy in respect of the Company's pastoral leasehold interests in Queensland. The State Rural Leasehold Land Strategy is a framework of legislation, policies and guidelines supporting the environmentally sustainable, productive use of rural leasehold land for agribusiness.
- > Northern Australian Beef Limited (NABL), a wholly owned subsidiary of the Company, has constructed and owns and operates the Livingstone Beef Processing Facility on land owned by NABL at Livingstone Farm, Noonamah, Stuart Highway, Northern Territory. NABL holds, and must comply with, an Environmental Protection Licence (EPL) under the *Waste Management and Pollution Control Act (NT)* for the storage, treatment, recycling and disposal of waste in connection with the facility.
- > The EPL contains stringent and detailed environmental requirements overseen by the Northern Territory Environment Protection Authority (NT EPA). NABL strives to comply in all respects with the terms of the EPL, however since commencement of commissioning and operations at the Livingstone Beef Processing Facility in October 2014, NABL has experienced some compliance issues under the EPL relating to waste water treatment systems and odour management.

In 2015 and 2016 the NT EPA issued directions to NABL on two occasions under the *Waste Management and Pollution Control Act (NT)*. These directions, known as Authorised Officer Directions (Directions), required NABL to provide further information to the NT EPA or take corrective measures. In 2016 the NT EPA confirmed that there were no outstanding actions required by NABL with regard to meeting the requirements of the Directions issued in 2015. In May 2016 a Direction was issued to NABL seeking further information about an alleged breach in early 2015, being the subject of one of the 2015 Directions. This matter remains ongoing and NABL and AACo continue to fully cooperate and assist the NT EPA with its enquiries.

NABL continues to work on improvements in process and equipment at the plant to address these issues, including the construction of an extension to the existing waste water treatment system. NABL and the NT EPA continue to work together constructively to monitor compliance with the EPL.

### Share Options

#### Unissued Shares

As at the date of this report, there were 781,278 unissued ordinary shares under options and performance rights.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.

The Company issued 160 subordinated convertible notes to an existing shareholder of the Company for \$80 million on 16 October 2013. The notes are unsecured and subordinated to the Company's senior bank debt. The notes expire on 30 September 2023 and the note holder may elect to cause redemption at the fifth anniversary of the issue date and annually thereafter. The coupon rate is the 6 month BBSW rate plus 0.15% subject to a floor of 3.0% per annum, payable semi-annually in arrears. The note holder is entitled to convert the notes into ordinary shares in the Company during the period 1 September 2014 until 15 days prior to maturity at \$1.15 per share, with no price payable on conversion. The number of underlying ordinary shares per convertible note is 434,783, or 69,565,280 ordinary shares for the full convertible notes issue.

#### Shares Issued as a Result of the Exercise of Options

During the financial period, there were no options to acquire shares in the Company exercised. Since the end of the financial period, no options have been exercised.

At the Company's Annual General Meeting on 16 July 2015, shareholders approved once again the Company's Performance Rights Plan which has been in place since 2011 and which has taken the place of the option plan for future incentive awards comprising performance rights. There will be no further grants of options under the option plan in the future. The rights of the existing option holders will remain until such time as the options are either exercised or the rights lapse.

There were 111,510 performance rights exercised under the AACo Performance Rights Plan during the year to 31 March 2016.

### Indemnification and Insurance of Directors' and Officers

Under the Company's Constitution, each of the Company's Directors, the Company Secretary and every other person who is an officer is indemnified for any liability to the full extent permitted by law.

The Company's Constitution also provides for the Company to indemnify each of the Company's Directors, the Company Secretary and every other person who is an officer to the maximum extent permitted by law, for legal costs and expenses incurred in defending civil or criminal proceedings.

Each Director has entered into a Deed of Access, Insurance and Indemnity, which provides for indemnity against liability as a Director, except to the extent of indemnity under an insurance policy or where prohibited by statute. The Deed also entitles the Director to access Company documents and records, subject to confidentiality undertakings.

The Company maintains Director's and Officer's insurance policies, to insure the Company's Directors, Company Secretary and those Directors and others of its subsidiaries. The Company has paid or has agreed to pay the premium for these policies.

The terms of the insurance contracts prohibit the Company from disclosing the level of premium paid and the nature of the liabilities insured.

## Remuneration Report (Audited)

This remuneration report for the year ended 31 March 2016 outlines the remuneration arrangements of the Company in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report details the remuneration arrangements for key management personnel (KMP) of the Company, who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Company.

For the purposes of this report, the term 'executive' encompasses the Managing Director/Chief Executive Officer (MD/CEO), senior executives, general managers and Company Secretary of the Company and the Group.

The remuneration report is presented under the following sections:

1. Individual Key Management Personnel (KMP) disclosures
2. Remuneration at a glance
3. Board oversight of remuneration
4. Non-executive Director (NED) remuneration arrangements
5. Executive remuneration arrangements
6. Executive contractual arrangements
7. Company performance and link to remuneration
8. Equity instruments disclosures
9. Loans to KMP and their related parties
10. Other transactions and balances with KMP and their related parties

**Remuneration Report (Audited) (continued)****1. Individual Key Management Personnel disclosures**

Details of KMP of the Company are set out in the following sections.

*(i) Directors*

Mr D. McGauchie	Chairman (non-executive)
Mr J. Strong	Managing Director and Chief Executive Officer
Mr S. Black	Director (non-executive)
Mr D. Crombie	Director (non-executive)
Mr T. Keene	Director (non-executive)
Dr S. Dissanayake	Director (non-executive)
Mr A. Abraham	Director (non-executive)

*(ii) Directors who resigned or retired during the period*

N/A
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*(iii) Executives*

Mr A. Slatter	Chief Financial Officer
Mr B. Bennett	Company Secretary/General Counsel
Mr A. Bourke	General Manager – People and Culture
Mr. G. Davis	General Manager – Innovation and Technology
Mr. C. Levick (appointed 30 September 2015)	General Manager – Sales and Marketing

*(iv) Executives who resigned, retired or otherwise ceased employment during the period*

N/A
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Mr. G. Davis was appointed as General Manager – Innovation and Technology and commenced with the Company on 18 August 2014. The management structure of the Company changed in August 2015, such that Mr. G. Davis is considered to be a KMP.

Mr. C. Levick was appointed as General Manager – Sales and Marketing and commenced with the Company on 30 September 2015. Mr. C. Levick resigned and ceased employment with the Company on 26 April 2016.

On 11 April 2016, AACo appointed Mr Tony McCormack as Chief Operating Officer.

On 10 May 2016, AACo appointed Mr Neil Reisman as a Non-executive Director.

There were no other changes to KMP after the reporting date and before the date the financial report was authorised for issue.



## Remuneration Report (Audited) (continued)

### 2. Remuneration at a Glance

#### *Remuneration strategy and policy*

#### *CEO and Key Management Personnel (KMP)*

Consistent with contemporary Corporate Governance standards the Company's remuneration strategy and policies aim to set employee and executive remuneration that is fair, competitive and appropriate for the markets in which it operates and is mindful of internal relativities. The Company aims to ensure that the mix and balance of remuneration is appropriate to reward fairly, attract, motivate and retain senior executives and other key employees.

Appropriate remuneration policy settings will be achieved by consistently applying a clear remuneration strategy directed at supporting the Board approved business strategy with appropriate and flexible processes, policies and procedures established by the Board from time to time.

Specific objectives of the Company's remuneration policies include the following:

- > Provide competitive total rewards to attract and retain high calibre employees and executives;
- > Provide fair and competitive fixed remuneration for all positions under transparent policies and review procedures;
- > Have a meaningful portion of remuneration "at risk", dependent upon meeting pre-determined performance benchmarks;
- > Link MD/CEO and senior executive rewards to achieving short and medium term key performance criteria;
- > Establish appropriate, demanding performance hurdles for any executive incentive remuneration;
- > Payment of cash bonuses or short term incentives (STI) which in the case of the MD/CEO are determined at the discretion of the Board after assessing the performance of the Company and the MD/CEO against agreed performance hurdles;
- > Provide Deferred Equity Awards (DEA), in the form of grants of performance rights to the MD/CEO and other senior executives with deferred vesting of two years (50%) and three years (50%); and
- > The actual DEA awarded to an executive is generally set at 50% of the amount of any cash bonus actually paid to the executive.

## Remuneration Report (Audited) (continued)

### 2. Remuneration at a Glance (continued)

The following table illustrates the structure of the Company's executive remuneration arrangements in 2016:

<b>REMUNERATION COMPONENT</b>	<b>VEHICLE</b>	<b>PURPOSE</b>	<b>LINK TO PERFORMANCE</b>
Total fixed remuneration (TFR)	Comprises base salary, superannuation contributions any 'packaged' benefits including FBT grossed-up on a Total Employment Cost (TEC) basis.	To reward executives market and competitive remuneration with reference to role, market and experience and internal relativities.	No link to Company performance although it is reviewed annually and consideration is given to the performance of the Company and business unit in the remuneration review.
Short term incentive (STI) component	Paid in cash	Rewards executives for their contribution to achievement of Company and business unit outcomes, as well as individual key performance indicators (KPIs).	STI for executives is generally calculated based on 80% Company financial performance metrics and 20% individual performance metrics.
Deferred Equity Award (DEA) component	Deferred Equity (Performance rights)	Rewards executives for their contribution to achievement of Company and business unit outcomes, as well as individual key performance indicators (KPIs).	Generally 50% of the actual amount of the STI cash bonus earned and subject to two-year (50%) and three-year (50%) service vesting conditions.

The current executive remuneration strategy can be represented broadly, as follows:

	<b>TOTAL FIXED REMUNERATION (TFR) %</b>	<b>SHORT TERM INCENTIVES %</b>	<b>DEA INCENTIVE<sup>1</sup> %</b>	<b>TOTAL TARGETED REWARD (TTR) %</b>
MD/CEO	58	28	14	100
Key Management	54-69	21-29	10-18	100

<sup>1</sup> 50% of cash bonus actually paid

#### Board remuneration

The Board seeks to set aggregate remuneration at a level for the non-executive directors that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to the shareholders. Board remuneration is tested on a regular basis by independent benchmark assessment.

#### Use of Remuneration Consultants

The Staff & Remuneration Committee has engaged external consultants to ensure it is fully informed when making remuneration decisions. The Board has appointed BoardRoom Pty Limited (BoardRoom) (formerly CRA Plan Managers Pty Limited) as remuneration advisor to the Company along with Crichton Associates.

The engagement of BoardRoom and Crichton Associates is based on an agreed set of protocols to ensure that the Staff & Remuneration Committee is provided with formal advice and recommendations, free from undue influence by members of the KMP to whom the recommendations may relate. The Board is satisfied the advice received from BoardRoom and Crichton Associates is free from undue influence from the KMP to whom the remuneration recommendations apply as BoardRoom were engaged by, and reported directly to, the Chair of the Staff & Remuneration Committee. BoardRoom and Crichton Associates also confirm in writing to the Chair that any remuneration recommendations are made free from undue influence by the Company's KMP.

## Remuneration Report (Audited) (continued)

### 2. Remuneration at a Glance (continued)

In recent years, BoardRoom and Crichton Associates have provided advice to the Company covering a range of remuneration matters, including the following:

- > Remuneration Strategy Review;
- > Chief Executive Officer, Chairman, and non-Executive Director Remuneration;
- > Senior Executive remuneration;
- > Deferred Equity Award (DEA) benefit recommendations for the CEO and senior executives; and
- > Valuation of Share Based Payments.

The independent reviews confirmed that Board and Executive remuneration at the Company were within market expectations and were reasonable at that time. No material variations were noted and no material changes have been made arising from these reviews.

The fees paid to Crichton Associates in the year ended 31 March 2016 for all remuneration consulting services was \$3,887 (excluding GST and out-of-pocket expenses). Other services provided included employee share scheme (ESS) administration and share based payment valuation services. Fees paid to BoardRoom and Crichton Associates in the year ended 31 March 2016 for all other services totalled \$16,870 (excluding GST and out-of-pocket expenses).

### 3. Board Oversight of Remuneration

#### *Staff and Remuneration Committee*

The Staff and Remuneration Committee currently comprises three independent non-executive Directors (Mr. D. Crombie (Committee Chairman), Mr. D. McGauchie and Mr. T. Keene).

The Staff and Remuneration Committee is responsible for making recommendations to the Board on the remuneration arrangements of non-executive directors (NEDs) and executives. The Staff and Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of NEDs and executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high performing Director and executive team. In determining the level and composition of executive remuneration, the Staff and Remuneration Committee may also seek external advice as set out above.

Mr. J. Strong (MD/CEO) attends certain Staff and Remuneration Committee meetings by invitation but is not present during any discussions relating to his own remuneration arrangements.

#### *Remuneration approval process*

The Board is responsible and approves the remuneration arrangements for the MD/CEO and executives and all awards made under any deferred equity award (DEA) plan, which are then subject to shareholder approval in the case of the MD/CEO, following recommendations from the Staff and Remuneration Committee, which obtains independent remuneration advice as necessary.

The Board also sets the aggregate remuneration of NEDs, which is then subject to shareholder approval.

The Chairman oversees the MD/CEO's recommendations for remuneration of senior executives with the assistance of the Staff and Remuneration Committee and independent remuneration advice, where necessary.

The Staff and Remuneration Committee approves, having regard to the recommendations made by the MD/CEO, the level of any Company short-term incentive (STI) payments to employees, including KMP's and therefore the amount of any Deferred Equity Award entitlement. The level of STI payments to the MD/CEO are determined separately by the Board. Any DEA entitlement resulting in an issue of securities for the MD/CEO must be approved by shareholders.

#### *Voting and comments made at the company's 16 July 2015 Annual General Meeting ('AGM')*

The company received 95.1% of 'for' votes in relation to its remuneration report for the year-ended 31 March 2015. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

### Remuneration Report (Audited) (continued)

#### 4. Non-Executive Director (NED) Remuneration Arrangements

##### *Remuneration policy*

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually against fees paid to NEDs of comparable companies. The Board considers advice from external consultants when undertaking the annual review process.

The Company's Constitution and the ASX Listing Rules specify that the aggregate remuneration of NEDs shall be determined, from time to time, by general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The latest determination was at the Annual General Meeting held on 24 May 2007, when shareholders approved an aggregate remuneration of \$875,000 per year.

##### *Structure*

The remuneration of NEDs consists of Directors' fees and committee fees. NED's do not receive retirement benefits other than superannuation, nor do they participate in any incentive programs.

Each NED receives a base fee for being a Director of the Company. An additional fee is also paid for each Board committee on which a Director sits, with a higher fee paid if the Director is a Chairman of a Board committee. The payment of additional fees for serving on a committee recognises the additional time commitment required by NEDs who serve on one or more committees.

The Board may also establish specialist subcommittees from time to time, comprised of directors, to oversee and report back to the Board on any identified large or otherwise important projects. Generally directors are not separately remunerated for membership of such subcommittees, however in the case of the subcommittee for the Livingstone Beef Processing Facility, the Board has determined it appropriate that the Subcommittee Chair, Mr T. Keene receive an additional fee for the role given the size and importance of the project and the time demands involved. The Board has also determined it appropriate that Mr A. Abraham receive an additional fee for his role as Chair of the Brand and Marketing Committee.

NED's are encouraged to hold shares in the Company. Any shares purchased by the Directors are purchased on market, which is in line with the Company's overall remuneration philosophy and aligns NEDs with shareholder interests.

The remuneration of NEDs for the year ended 31 March 2016 and 31 March 2015 is detailed in Table 1 on page 26 of this report.

#### 5. Executive Remuneration Arrangements

##### *Structure*

Remuneration is determined as part of an annual performance review process, having regard to market factors, relevant comparative data, a performance evaluation process and independent remuneration advice, where necessary.

In the year ended 31 March 2016, the executive remuneration framework consisted of the following components:

- > Fixed remuneration; and
- > Variable or 'at risk' STI remuneration including a Cash Bonus and the Deferred Equity Award (DEA).

##### *Total Fixed Remuneration (TFR)*

Executives may receive their fixed remuneration as cash, or cash with non-monetary benefits such as health insurance, car allowances and tax advisory services. Total fixed remuneration comprises cash and other benefits and entitlements to provide a base level of remuneration which is both appropriate to the role and responsibilities, reflects current market conditions, the individual's seniority and overall performance of the Company and the relevant business units.

For most executives, superannuation is included in TFR.

Executive contracts of employment do not include any guaranteed base pay increases.

Senior executives are given the opportunity to receive a portion of their fixed remuneration in forms other than cash, such as motor vehicles, under a framework that ensures the Company does not incur additional cost.

The fixed component of executives' base fixed remuneration is detailed in the tables 1 and 2 (refer pages 26 to 27).

## Remuneration Report (Audited) (continued)

### 5. Executive Remuneration Arrangements (continued)

#### *Short-term incentives*

The Company operates an annual STI program that is available to executives and employees and awards a cash bonus subject to the attainment of Company, business unit and individual measures which are set at the commencement of the performance period.

The aim of the STI is to link the achievement of the Company's annual and/or immediate financial and broader operational targets with the remuneration received by the executives and senior employees responsible for achieving those targets.

The total potential STI is set at a level so as to provide sufficient incentive to executives to achieve the operational targets and at a cost to the Company that is reasonable in the circumstances.

Actual STI payments awarded to each executive depend on the extent to which specific targets prescribed in the performance agreement for a financial year are met. The targets consist of a number of key performance indicators covering financial and non-financial, corporate and individual measures of performance.

These measures were chosen as they represent the key drivers for the short term success of the business and provide a framework for delivering long-term value.

Under the arrangements approved by the Board the general principles that will apply are that the executive will receive a Short Term Incentive in the form of a cash bonus that is generally set at 30 to 60% of the executive's total fixed remuneration. The Short Term Incentive will be paid within three months of the financial year end on which the executive's performance is being measured.

Executives who are paid a cash bonus will in addition receive a Deferred Equity Award (DEA) which is generally equal to 50% of the amount of the STI cash bonus actually earned. The DEA is in the form of a grant of performance rights under the performance rights plan and is subject to two-year (50%) and three-year (50%) service vesting conditions i.e. vesting of the DEA is subject to the executive still being employed by the Company at the relevant vesting date.

The Company has a Good Leaver and a Bad Leaver Policy. If an executive ceases employment with the Company, then any unvested Deferred Equity Awards will be automatically forfeited. If the executive was a Good Leaver, then the Board will consider the circumstances of the cessation of employment and may exercise its discretion to allow some or all of the unvested Deferred Equity Awards to vest (and be exercised).

The Board assesses the performance of the MD/CEO against targets and determines actual STI payment based upon the recommendation of the Staff and Remuneration Committee. The senior executives have a maximum STI set as a percentage of their respective TFR.

The MD/CEO assesses the performance of other senior executives against their targets and determines the actual STI with oversight by the Board through the Chairman and the Staff and Remuneration Committee.

**Remuneration Report (Audited) (continued)****5. Executive Remuneration Arrangements (continued)**

The structure of the short-term incentive plan is as follows:

<b>FEATURE</b>	<b>DESCRIPTION</b>										
Maximum opportunity	<p>Short-term incentives (STI) CEO: 50% of fixed remuneration Other executives: 30-50% of fixed remuneration</p> <p>Deferred equity award (DEA) CEO: 50% of short-term incentive cash bonus Other executives: Generally 50% of the actual amount of the STI cash bonus earned</p>										
Minimum opportunity	<p>Short-term incentives (STI) CEO: 0% of fixed remuneration Other executives: 0% of fixed remuneration</p> <p>Deferred equity award (DEA) CEO: 0% of short-term incentive cash bonus Other executives: 0% of short-term incentive cash bonus</p>										
Performance metrics	<p>The STI metrics align with the strategic priorities at both a Company and business unit level. The general performance metrics and weightings for the KMP are as follows:</p> <table> <tr> <th><b>METRIC</b></th><th><b>WEIGHTING</b></th></tr> <tr> <td>Operating EBITDA</td><td>30%</td></tr> <tr> <td>Operating cash flow</td><td>30%</td></tr> <tr> <td>Return on Capital Employed (ROCE)</td><td>20%</td></tr> <tr> <td>Individual performance metrics</td><td>20%</td></tr> </table>	<b>METRIC</b>	<b>WEIGHTING</b>	Operating EBITDA	30%	Operating cash flow	30%	Return on Capital Employed (ROCE)	20%	Individual performance metrics	20%
<b>METRIC</b>	<b>WEIGHTING</b>										
Operating EBITDA	30%										
Operating cash flow	30%										
Return on Capital Employed (ROCE)	20%										
Individual performance metrics	20%										
Delivery of STI	<p>The STI is paid in cash generally in the next financial year.</p> <p>The DEA is subject to two-year (50%) and three-year (50%) service vesting conditions. This encourages retention and shareholder alignment.</p>										
Board discretion	The Board has discretion to adjust remuneration outcomes up or down to prevent any inappropriate reward outcomes, including reducing (down to zero, if appropriate) any deferred STI award.										

DEAs are provided to the MD/CEO and Senior Executives based on the level of STI earned each year. The last offer under this plan was made on 31 July 2014 and was subject to one (50%) and two (50%) year service vesting conditions. The Board has determined that future DEA grants will be subject to two (50%) and three (50%) year service vesting conditions.

There is also a tax exempt share plan that may be utilised at the discretion of the Board for general employee equity participation. An Executive Option Plan, for which no further grants will be made, has a series of grants outstanding, the last of which expires on 1 January 2019.

The Board reviewed the incentive arrangements for executives and the MD/CEO in the current period.

The Company encourages its executives to own the Company's shares, to further align their interests with the interests of other shareholders.

The STI cash bonus for the MD/CEO or any other executive in respect of performance during the year to 31 March 2016 amounts to nil. There were no DEA awarded to the Managing Director/CEO or any other executives in respect of performance during the year to 31 March 2016.

The STI cash bonus for the MD/CEO and any other executives in respect of performance during the year to 31 March 2015 was nil. There were no DEA awarded to the MD/CEO or any other executives in respect of performance during the year to 31 March 2015.

## Remuneration Report (Audited) (continued)

### 6. Executive Contractual Arrangements

Remuneration arrangements for KMP are formalised in employment agreements. Details of these contracts are provided below. Company employees are employed by the subsidiary company A.A. Company Pty Ltd.

	<b>CEO DESCRIPTION</b>	<b>SENIOR EXECUTIVE DESCRIPTION</b>
Total fixed remuneration	\$600,000 inc. superannuation (subject to annual review by Board).	Range between \$240,000 and \$398,000
Short Term Incentive (STI) Cash Bonus	Maximum opportunity of \$300,000 (50% of TFR)	Maximum opportunity between 30 – 50% of TFR
Deferred Equity Award	Generally 50% of the actual amount of the STI cash bonus earned	Generally 50% of the actual amount of the STI cash bonus earned
Contract duration	Ongoing	Ongoing

The MD/CEO's termination provisions are as follows:

	<b>NOTICE PERIOD</b>	<b>PAYMENT IN LIEU OF NOTICE</b>	<b>TREATMENT OF STI ON TERMINATION</b>	<b>TREATMENT OF PERFORMANCE RIGHTS ON TERMINATION</b>
Employer-initiated termination	6 months	Part or all of 6 months	Not eligible	Unvested performance rights lapse unless Good Leaver and Board exercises discretion to allow
Termination for serious misconduct	Nil	Nil	Not eligible	Unvested performance rights lapse
Employee-initiated termination	6 months	Part or all of 6 months	Not eligible	Unvested performance rights lapse unless Good Leaver and Board exercises discretion to allow

Upon termination, the MD/CEO is subject to 12 months' restriction for competition, employee inducement and client solicitation.

#### Other Key Management Personnel

The executive service agreements for other senior executives generally reflect that of the MD/CEO.

Standard Key Management Personnel termination provisions are as follows:

	<b>NOTICE PERIOD</b>	<b>PAYMENT IN LIEU OF NOTICE</b>	<b>TREATMENT OF STI ON TERMINATION</b>	<b>TREATMENT OF PERFORMANCE RIGHTS ON TERMINATION</b>
Employer-initiated termination	3 to 6 months	Part or all of 3 to 6 months	Not eligible	Unvested performance rights lapse unless Good Leaver and Board exercises discretion to allow
Termination for serious misconduct	Nil	Nil	Not eligible	Unvested performance rights lapse
Employee-initiated termination	3 to 6 months	Part or all of 3 to 6 months	Not eligible	Unvested performance rights lapse unless Good Leaver and Board exercises discretion to allow

## Remuneration Report (Audited) (continued)

### 7. Link Between Remuneration and Performance

#### *FY2016 performance and impact on remuneration*

The Company's performance for the 12 months to 31 March 2016 in relation to the metrics for the payment of short term incentives for KMP, being Operating EBITDA, operating cash flow and return on capital employed, were below the Board approved thresholds. As a result, no STI cash bonus payments have been accrued or DEA issued.

The following table provides an overview of the STI achievements against actual performance:

<b>METRICS</b>	<b>IMPACT ON INCENTIVE AWARD</b>
Operating EBITDA	Below target
Operating cash flow	Below target
Return on Capital Employed (ROCE)	Below target

#### *Statutory performance indicators*

The table below shows measures of the Company's financial performance over the last five years as required by the Corporations Act (2001). However, these are not necessarily consistent with the measures used in determining the variable amounts of remuneration to be awarded to KMPs. As a consequence, there may not always be a direct correlation between the statutory key performance measures and the variable remuneration awarded.

<b>MEASURE</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013<sup>1</sup></b>	<b>2012</b>
Profit/(loss) for the year attributable to owners (\$000)	67,807	9,623	(39,898)	(46,477)	(8,409)
Basic earnings per share (cents)	12.7	1.8	(9.3)	(14.9)	(2.7)
Dividend payments (\$000)	0	0	0	0	0
Dividend payout ratio (%)	0	0	0	0	0
Increase/(decrease) in share price (%)	(19%)	30%	0%	14%	(12%)
Operating EBITDA (\$000)	14,797	(3,591)	165	n/a	n/a
Operating Cash Flow (\$000)	21,789	(75,881)	18,451	(18,603)	(771)

<sup>1</sup> FY2013 was a three month year from 1 January 2013 to 31 March 2013 due to a change in year-end dates.

#### *Additional statutory information*

The table below shows the relative proportions of remuneration that are linked to performance and those that are fixed, based on the amounts disclosed as statutory remuneration expense in Tables 1 and 2 on pages 26 to 27.

	<b>FIXED REMUNERATION</b>		<b>AT RISK – STI – CASH</b>		<b>AT RISK – STI – DEA<sup>1</sup></b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Directors</b>						
J. Strong	96%	97%	0%	0%	4%	3%
<b>Executives</b>						
A. Slatter	100%	100%	0%	0%	0%	0%
B. Bennett	92%	95%	0%	0%	8%	5%
A. Bourke	100%	100%	0%	0%	0%	0%
G. Davis	100%	-	0%	-	0%	-
C. Levick	100%	-	0%	-	0%	-

<sup>1</sup> Based on the share based payment expense incurred by the Company.



**Remuneration Report (Audited) (continued)****7. Link Between Remuneration and Performance (continued)***Performance based remuneration granted and forfeited during the year*

For each cash bonus and grant of rights to deferred shares included in the tables 1 and 2 (refer pages 26 to 27), the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. The minimum value of the rights yet to vest is nil, as the rights will be forfeited if the key management persons fail to satisfy the vesting condition. The maximum value of the rights yet to vest has been determined as the amount of the grant date fair value of the rights that is yet to be expensed.

<b>CURRENT YEAR STI ENTITLEMENT (CASH BONUS AND DEA)</b>			
	<b>TOTAL OPPORTUNITY (\$)</b>	<b>AWARDED %</b>	<b>FORFEITED %</b>
<b>Directors</b>			
J. Strong	450,000	0%	100%
<b>Executives<sup>1</sup></b>			
A. Slatter	298,500	0%	100%
B. Bennett	253,011	0%	100%
A. Bourke	108,000	0%	100%
G. Davis	234,000	0%	100%
C. Levick	138,569	0%	100%

<sup>1</sup> The above opportunity has been adjusted for the number of days of employment throughout the year for each of the relevant employees.

## Directors' Report (continued)

### Remuneration Report (Audited) (continued)

#### 7. Link Between Remuneration and Performance (continued)

##### Remuneration of Key Management Personnel

Table 1: Directors

DIRECTORS	SHORT TERM			POST-EMPLOYMENT	LONG-TERM BENEFIT	TERMINATION	SHARE BASED PAYMENT	TOTAL
	Salary & fees	Cash bonus (under STI)	Non-monetary benefits	Superannuation	Long service leave <sup>2</sup>	Benefits	Short term incentive (DEA) <sup>3</sup>	
	\$	\$	\$	\$	\$	\$	\$	
Non-executive Directors								
D. McGauchie								
31/03/2016	189,280	-	-	17,982	-	-	-	207,262
31/03/2015	189,280	-	-	17,864	-	-	-	207,144
S. Black								
31/03/2016	95,304	-	-	9,054	-	-	-	104,358
31/03/2015	97,646	-	-	9,211	-	-	-	106,857
D. Crombie								
31/03/2016	110,304	-	-	10,479	-	-	-	120,783
31/03/2015	110,304	-	-	10,410	-	-	-	120,714
A. Abraham <sup>1</sup>								
31/03/2016	73,797	-	-	7,011	-	-	-	80,808
31/03/2015	39,486	-	-	3,751	-	-	-	43,237
T. Keene								
31/03/2016	111,331	-	-	10,576	-	-	-	121,907
31/03/2015	126,907	-	-	11,974	-	-	-	138,881
Dr. S. Dissanayake								
31/03/2016	70,304	-	-	-	-	-	-	70,304
31/03/2015	72,646	-	-	-	-	-	-	72,646
Executive Directors								
J. Strong								
31/03/2016	639,353	-	-	25,192	-	-	31,158	695,703
31/03/2015	639,278	-	-	20,365	12,669	-	20,772	693,084
Total Remuneration: Directors								
31/03/2016	1,289,673	-	-	80,294	-	-	31,158	1,401,125
31/03/2015	1,275,547	-	-	73,575	12,669	-	20,772	1,382,563

<sup>1</sup> Mr A. Abraham was appointed as a Director on 8 September 2014.

<sup>2</sup> The Company changed its long service leave policy during the period, such that balances are only accrued from 5 years' service onwards.

<sup>3</sup> The STI expense amounts to the value expensed by the Company for the period.

## Remuneration Report (Audited) (continued)

### 7. Link Between Remuneration and Performance (continued)

#### Remuneration of Key Management Personnel

Table 2: Other Key Management Personnel (KMP)

EXECUTIVES	SHORT TERM			POST-EMPLOYMENT	LONG-TERM BENEFIT	TERMINATION	SHARE BASED PAYMENT	TOTAL
	Salary & fees	Cash bonus (under STI)	Non-monetary benefits	Superannuation	Long service leave <sup>5</sup>	Benefits	Short term incentive (DEA) <sup>6</sup>	
	\$	\$	\$	\$	\$	\$	\$	
Current KMP								
A. Slatter <sup>1</sup>								
31/03/2016	381,201	30,000 <sup>7</sup>	4,200	37,133	-	-	-	452,534
31/03/2015	77,419	-	9,727	7,063	745	-	-	94,954
B. Bennett								
31/03/2016	275,770	-	-	18,783	5,063	-	27,200	326,816
31/03/2015	294,345	-	-	19,509	7,174	-	18,558	339,586
A. Bourke <sup>2</sup>								
31/03/2016	229,135	-	-	20,822	-	-	-	249,957
31/03/2015	184,500	-	-	16,500	-	-	-	201,000
G. Davis <sup>3</sup>								
31/03/2016	166,199	-	-	16,414	-	-	-	182,613
C. Levick <sup>4</sup>								
31/03/2016	181,483	-	-	16,514	-	-	-	197,997
31/03/2015	-	-	-	-	-	-	-	-
Total Remuneration: Other KMP								
31/03/2016	1,233,788	30,000	4,200	109,666	5,063	-	27,200	1,409,917
31/03/2015	556,264	-	9,727	43,072	7,919	-	18,558	635,540

<sup>1</sup> Mr A. Slatter commenced as CFO on 19 January 2015.

<sup>2</sup> Mr A. Bourke commenced as GM – People and Culture on 10 June 2014.

<sup>3</sup> Mr. G. Davis commenced as General Manager – Innovation and Technology on 18 August 2014. The management structure of the Company changed in August 2015, such that Mr. G. Davis is considered to be a KMP.

<sup>4</sup> Mr. C. Levick commenced as General Manager – Sales and Marketing on 30 September 2015. Mr. C. Levick resigned and ceased employment with the Company on 26 April 2016.

<sup>5</sup> The Company changed its long service leave policy during the period, such that balances are only accrued from 5 years' service onwards.

<sup>6</sup> The STI expense amounts to the value expensed by the Company for the period.

<sup>7</sup> A cash bonus was paid to Mr A. Slatter in May 2015 following completion of a 3 month probation period, in accordance with the terms of his employment contract.

**Remuneration Report (Audited) (continued)****8. Equity Instrument Disclosures**

No performance rights or options were granted during the twelve months to 31 March 2016. There were 277,494 performance rights granted on 31 July 2014, of which 149,678 performance rights related to KMP. No options were granted during the twelve months to 31 March 2015.

No shares were issued to key management personnel during the year-ended 31 March 2016 in relation to performance rights. There were 111,510 shares issued to former key management personnel. No shares were issued on the exercise of options during the twelve months to 31 March 2016 to key management personnel.

*Rights to deferred shares*

The fair value of the rights is determined based on the market price of the Company's shares at the grant date, with an adjustment made to take into account the two and three year vesting period on the issue of DEA and expected dividends during that period that will not be received by the employees. A summary of the outstanding performance rights relating to key management personnel is provided below, with a full listing provided in Note F6 Share-Based Payments.

<b>GRANT DATE</b>	<b>VESTING DATE</b>	<b>GRANT DATE VALUE</b>
31 July 2014	31 July 2016	\$1.2405
31 July 2014	31 July 2017	\$1.2408

## Remuneration Report (Audited) (continued)

### 8. Equity Instrument Disclosures (continued)

Details on rights over ordinary shares in the Company that were granted as compensation or vested during the reporting period to each key management person during the reporting period are as follows:

		BALANCE AT BEGINNING OF PERIOD	GRANTED AS REMUNERATION	EXERCISED DURING THE YEAR	NET CHANGE OTHER <sup>1</sup>	BALANCE AT END OF PERIOD	NOT VESTED AND NOT EXERCISABLE	VESTED AND EXERCISABLE	VALUE YET TO VEST <sup>2</sup> \$
2016	YEAR GRANTED	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	
Executives									
J. Strong	2015	30,091	-	-	-	30,091	30,091	-	39,118
	2015	30,091	-	-	-	30,091	30,091	-	39,118
A. Slatter	-	-	-	-	-	-	-	-	-
B. Bennett	2015	26,269	-	-	-	26,269	26,269	-	34,150
	2015	26,268	-	-	-	26,268	26,268	-	34,148
A. Bourke	-	-	-	-	-	-	-	-	-
G. Davis	-	-	-	-	-	-	-	-	-
C. Levick	-	-	-	-	-	-	-	-	-

<sup>1</sup> Includes forfeitures, and the removal from the table of options and rights for key management personnel who have resigned during the period.

<sup>2</sup> The maximum value of the deferred shares yet to vest has been determined based on the share price of the company at 31 March 2016.

The minimum value of deferred shares yet to vest is nil, as the shares will be forfeited if the vesting conditions are not met.

No other Directors or executives held options or performance rights during the period.

## Directors' Report (continued)

### Remuneration Report (Audited) (continued)

#### 8. Equity Instrument Disclosures (continued)

##### Shareholdings

The table below summarises the movements during the period in the shareholdings of key management personnel, including their personally related parties, in the Company for the period.

	BALANCE AT BEGINNING OF PERIOD	GRANTED AS REMUNERATION	EXERCISE OF OPTIONS/RIGHTS	NET CHANGE OTHER	BALANCE AT END OF PERIOD
2016	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER
<b>Directors</b>					
D. McGauchie	820,774	-	-	200,000	1,020,774
S. Black	17,000	-	-	23,000	40,000
D. Crombie	60,000	-	-	-	60,000
T. Keene	50,000	-	-	-	50,000
A. Abraham	-	-	-	-	-
Dr. S Dissanayake	-	-	-	1,275,000	1,275,000
J. Strong	28,387	-	-	12,200	40,587
<b>Executives</b>					
A. Slatter	-	-	-	-	-
B. Bennett	44,605	-	-	-	44,605
A. Bourke	-	-	-	-	-
G. Davis	-	-	-	-	-
C. Levick	-	-	-	-	-
Total	1,020,766	-	-	1,510,200	2,530,966

No other Directors or executives held shares during the period.

All equity transactions with Directors and executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

#### 8. Loans to key management personnel and their related parties

There are no loans outstanding with the key management personnel at 31 March 2016 (31 March 2015: nil), nor have there been any transactions that would be considered a loan throughout the period.

#### 9. Other transactions and balances with key management personnel and their related parties

There have been no other transactions with key management personnel or their related parties during the financial year to 31 March 2016 (31 March 2015: nil).

## Directors' Report (continued)

### Directors' Meetings (Unaudited)

The number of Meetings of Directors (including meetings of Committees of Directors) held during the year and the number of meetings attended by each Director is as follows:

	<b>DIRECTORS' MEETINGS</b>		<b>AUDIT &amp; RISK MANAGEMENT COMMITTEE</b>		<b>STAFF &amp; REMUNERATION COMMITTEE</b>		<b>NOMINATION COMMITTEE</b>	
	<b>A</b>	<b>B</b>	<b>A</b>	<b>B</b>	<b>A</b>	<b>B</b>	<b>A</b>	<b>B</b>
Mr. D McGauchie	12	12	8	8	4	4	1	1
Mr. J Strong <sup>¥</sup>	12	12						
Mr. T Keene	12	12	8	6	4	4	1	1
Mr. D Crombie	12	12	8	8	4	4	1	1
Mr. S Black	12	12	8	8	*	4	1	1
Dr. S Dissanayake	12	10	*	6	*	4	1	1
Mr. A Abraham	12	12	*	8	*	4	1	1

A = Number of meetings held during the time the Director held office or was a member of the committee during the year

B = Number of meetings attended

\* Not a member of the relevant committee

¥ Mr Strong is invited to all Committee meetings but as an executive is not a member of those Committees

#### Committee membership

As at the date of this report, the Company had an Audit and Risk Management Committee, Staff and Remuneration Committee and a Nomination Committee.

#### Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

## Auditor Independence

We have obtained the following independence declaration from our auditors KPMG.



### Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Australian Agricultural Company Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 March 2016 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to be 'Simon Crane'.

Simon Crane

Partner

Brisbane

25 May 2016



## Non Audit Services

KPMG was appointed lead auditor at the AGM on 16 July 2015. Ernst & Young was the lead auditor for the period ended 31 March 2015.

The following non-audit services were provided by the entity's lead auditor. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. The lead auditor received or are due to receive the following amounts for the provision of non-audit services:

	<b>31 MAR 2016</b>	<b>31 MAR 2015</b>
	<b>KPMG</b>	<b>Ernst &amp; Young</b>
	<b>\$</b>	<b>\$</b>
Advisory services	-	-
Tax related advice	-	-
	-	-

Signed in accordance with a resolution of the Directors



Donald McGauchie  
Chairman

Brisbane  
25 May 2016

## Corporate Governance Statement

The Board is responsible for establishing the corporate governance framework of the Company having regard to the ASX Corporate Governance Council (CGC) published guidelines as well as its corporate governance principles and recommendations. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summarises the Company's compliance with the CGC's recommendations as at the date of this report.

RECOMMENDATION	COMPLY YES / NO	REFERENCE / EXPLANATION	ASX LISTING RULE (LR) /CGC RECOMMENDATION
<b>Principle 1 – Lay solid foundations for management and oversight</b>			
1.1 A listed entity should disclose:			
> the respective roles and responsibilities of its Board and management; and	Yes	Page 38	ASX CGC 1.1
> those matters expressly reserved to the Board and those delegated to management.			
1.2 A listed entity should:			
> undertake appropriate checks before appointing a person, or putting forward to shareholders a candidate for election, as a Director; and	Yes	Page 38	ASX CGC 1.2
> provide shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director.			
1.3 A listed entity should have a written agreement with each Director and senior executive setting out the terms of their appointment.	Yes	Page 39	ASX CGC 1.3
1.4 The company secretary of a listed entity should be accountable to the Board, through the chair, on all matters to do with the proper functioning of the Board.	Yes	Page 38	ASX CGC 1.4
1.5 A listed entity should:			
> have a diversity policy which includes requirements for the Board or a relevant committee of the Board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;			
> disclose that policy or a summary of it;			
> disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the Board or a relevant committee of the Board in accordance with the entity's diversity policy and its progress towards achieving:	Yes	Page 42	ASX CGC 1.5
> the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or			
> if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.			
1.6 A listed entity should:			
> have and disclose a process for periodically evaluating the performance of the Board, its committees and individual Directors; and	Yes	Page 41	ASX CGC 1.6
> disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.			
1.7 A listed entity should:			
> have and disclose a process for periodically evaluating the performance of its senior executives;	Yes	Refer to Remuneration Report	ASX CGC 1.7
> disclose, in relation to each reporting period, whether a performance evaluation was undertaken in this reporting period in accordance with that process.			

## Corporate Governance Statement (continued)

RECOMMENDATION	COMPLY YES / NO	REFERENCE / EXPLANATION	ASX LISTING RULE (LR) /CGC RECOMMENDATION
<b>Principle 2 – Structure the Board to add value</b>			
2.1 The Board of a listed entity should: <ul style="list-style-type: none"> <li>&gt; have a nomination committee which: <ul style="list-style-type: none"> <li>&gt; has at least three members, a majority of whom are independent Directors; and</li> <li>&gt; is chaired by an independent Director,</li> </ul> </li> <li>and disclose: <ul style="list-style-type: none"> <li>&gt; the charter of the committee;</li> <li>&gt; the members of the committee; and</li> <li>&gt; as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> <li>&gt; if it does not have a nomination committee, disclose that fact and the processes it employees to address Board succession issues and to ensure that the Board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.</li> </ul> </li> </ul>	Yes	Page 43 and AACo website	ASX CGC 2,1
2.2 A listed entity should disclose a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.	Yes	Page 40	ASX CGC 2.2
2.3 A listed entity should disclose: <ul style="list-style-type: none"> <li>&gt; the names of Directors considered by the Board to be independent Directors;</li> <li>&gt; if a Director has an interest, position, association or relationship of the type described in Box 2.3 but the Board is of the opinion that it does not compromise the independence of the Director, the nature of the interest, association or relationship in question and an explanation of why the Board is of that opinion; and</li> <li>&gt; the length of service of each Director.</li> </ul>	Yes	Page 39	ASX CGC 2.3
2.4 A majority of the Board of a listed entity should be independent Directors.	Yes	Page 39	ASX CGC 2.4
2.5 The chair of the Board of a listed entity should be an independent Director and, in particular, should not be the same person as the CEO of the entity.	Yes	Page 39	ASX CGC 2.5
2.6 A listed entity should have a program for inducting new Directors and provide appropriate professional development opportunities for Directors to develop and maintain the skills and knowledge needed to perform their roles as Directors effectively.	Yes	Page 41	ASX CGC 2.6
<b>Principle 3 – Act ethically and responsibly</b>			
3.1 A listed entity should: <ul style="list-style-type: none"> <li>&gt; have a code of conduct for its Directors, senior executives and employees; and</li> <li>&gt; disclose the code or a summary of it.</li> </ul>	Yes	Page 41 and AACo website	ASX CGC 3.1
<b>Principle 4 – Safeguard integrity in corporate reporting</b>			
4.1 The Board of a listed entity should: <ul style="list-style-type: none"> <li>&gt; have an audit committee which: <ul style="list-style-type: none"> <li>&gt; has at least three members, all of whom are non-executive Directors and a majority of whom are independent Directors;</li> <li>&gt; is chaired by an independent Director, who is not the chair of the Board;</li> </ul> </li> <li>and disclose: <ul style="list-style-type: none"> <li>&gt; the charter of the committee;</li> <li>&gt; the relevant qualifications and experience of the members of the committee; and</li> <li>&gt; in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings. or</li> <li>&gt; if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</li> </ul> </li> </ul>	Yes	Page 43 and AACo website	ASX CGC 4.1

## Corporate Governance Statement (continued)

RECOMMENDATION	COMPLY YES / NO	REFERENCE / EXPLANATION	ASX LISTING RULE (LR) /CGC RECOMMENDATION
4.2 The Board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	Yes	Page 45	ASX CGC 4.2
4.3 A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from shareholders relevant to the audit.	Yes	Page 46	ASX CGC 4.3
Principle 5 – Make timely and balanced disclosure			
5.1 A listed entity should: <ul style="list-style-type: none"> <li>&gt; have a written policy for complying with its continuous disclosure obligations under the ASX Listing Rules; and</li> <li>&gt; disclose that policy or a summary of it</li> </ul>	Yes	Page 46 and AACo website	ASX CGC 5.1
Principle 6 – Respect the rights of shareholders			
6.1 A listed entity should provide information about itself and its governance to investors via its website.	Yes	AACo Website	ASX CGC 6.1
6.2 A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	Yes	Page 46	ASX CGC 6.2
6.3 A listed entity should disclose the policies and processes it has in place to facilitate and encourage participating at meetings of security holders.	Yes	Page 46	ASX CGC 6.3
6.4 A listed entity should give shareholders the option to receive communications from, and send communications to, the entity and its security registry electronically.	Yes	Page 46	ASX CGC 6.4
Principle 7 – Recognise and manage risk			
7.1 The Board of a listed entity should: <ul style="list-style-type: none"> <li>&gt; have a committee or committees to oversee risk, each of which: <ul style="list-style-type: none"> <li>&gt; have has at least three members, a majority of whom are independent Directors; and</li> <li>&gt; is chaired by an independent Director,</li> </ul> </li> <li>and disclose: <ul style="list-style-type: none"> <li>&gt; the charter of the committee;</li> <li>&gt; the members of the committee; and</li> <li>&gt; have as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> <li>&gt; if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.</li> </ul> </li> </ul>	Yes	Page 43 and AACo website	ASX CGC 7.1
7.2 The Board or a committee of the Board should: <ul style="list-style-type: none"> <li>&gt; review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and</li> <li>&gt; disclose in relation to each reporting period, whether such a review has taken place.</li> </ul>	Yes	Page 44	ASX CGC 7.2
7.3 A listed entity should disclose: <ul style="list-style-type: none"> <li>&gt; If it has an internal audit function, how the function is structured and what role it performs; or</li> <li>&gt; If it does not have an internal audit function, that fact and the processes it employ for evaluating and continually improving the effectiveness of its risk management and internal control processes.</li> </ul>	Yes	Page 44	ASX CGC 7.3
7.4 A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	Yes	Page 44 to 45	ASX CGC 7.4

## Corporate Governance Statement (continued)

RECOMMENDATION	COMPLY YES / NO	REFERENCE / EXPLANATION	ASX LISTING RULE (LR) /CGC RECOMMENDATION
<b>Principle 8 – Remunerate fairly and responsibly</b>			
<p>8.1 The Board of a listed entity should:</p> <ul style="list-style-type: none"> <li>&gt; have a remuneration committee which: <ul style="list-style-type: none"> <li>&gt; has at least three members, a majority of whom are independent Directors; and</li> <li>&gt; is chaired by an independent Director,</li> </ul> </li> <li>and disclose: <ul style="list-style-type: none"> <li>&gt; the charter of the committee;</li> </ul> </li> </ul> <p>The Board should:</p> <ul style="list-style-type: none"> <li>&gt; have a Remuneration Committee which: <ul style="list-style-type: none"> <li>&gt; has at least three members, a majority of whom are independent directors; and</li> <li>&gt; is chaired by an independent director,</li> </ul> </li> <li>and disclose: <ul style="list-style-type: none"> <li>&gt; the charter of the Remuneration Committee;</li> <li>&gt; the members of the Remuneration Committee; and</li> <li>&gt; the number of times the Remuneration Committee met during the reporting period and the individual attendances at those meetings.</li> <li>&gt; the members of the committee; and</li> <li>&gt; as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> <li>&gt; if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive</li> </ul> </li> </ul>	Yes	Page 46 and AACo website	ASX CGC 8.1
8.2 A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive Directors and the remuneration of executive Directors and other senior executives.	Yes	Page 45	ASX CGC 8.2
<p>8.3 A listed entity which has an equity-based remuneration scheme should:</p> <ul style="list-style-type: none"> <li>&gt; have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</li> <li>&gt; disclose that policy or a summary of it.</li> </ul>	Yes	Page 46	ASX CGC 8.3

The Company's corporate governance practices were in place throughout the 12 months to 31 March 2016, except to the extent as may be noted in this statement.

Various corporate governance practices are discussed within this statement. For further information on the corporate governance policies adopted by the Company, refer to our website: [www.aaco.com.au/investors-and-media/corporate-governance/](http://www.aaco.com.au/investors-and-media/corporate-governance/).

### Board Functions

The Board is responsible to the Company's shareholders for the overall governance and performance of the Company.

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of Directors and for the operations of the Board. Before the Board appoints a person, or puts forward a candidate for election, as a Director, appropriate background checks are undertaken. The Company also provides shareholders with all material information in its possession that is relevant to a decision on whether or not to elect or re-elect a Director through a number of channels, such as the Notice of Meeting, Director biographies and other information contained in the Annual Report.

The responsibility for the operation and administration of the Company is delegated, by the Board, to the Managing Director/Chief Executive Officer (MD/CEO) and the executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the MD/CEO and the executive management team.

Whilst at all times the Board retains full responsibility for guiding and monitoring the Company, in discharging its stewardship it makes use of Board committees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the Board. The Chairman of each committee reports on any matters of substance at the next full Board meeting and all committee minutes are provided to the Board.

There are currently three Board committees:

- > Audit and Risk Management
- > Staff and Remuneration
- > Nomination

The roles and responsibilities of these committees are discussed throughout this statement.

The Board also establishes specialist subcommittees from time to time, comprised of directors, to oversee and report back to the Board on any identified large or otherwise important projects.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including:

- > Board approval of a strategic plan designed to meet stakeholders' needs and manage business risk.
- > Ongoing development of the strategic plan and approving initiatives and strategies designed to ensure the continued growth and success of the entity.
- > Implementation of budgets by management and monitoring progress against budget – via the establishment and reporting of both financial and non-financial key performance indicators.

Other functions reserved to the Board include:

- > Approval of the annual and half-yearly financial reports.
- > Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures.
- > Ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored.
- > Reporting to shareholders.
- > Appointment of the MD/CEO.

The matters which are reserved for the Board are contained in the Board's Charter, which is available on the Company's website.

The Company Secretary acts as secretary to the Board is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board. All Directors have direct access to the Company Secretary.

### Structure of the Board

The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the annual report are included in the Directors' Report. Upon appointment, each Director and senior executive enters into a written agreement which sets out the terms of their appointment. Further information is included in the Directors' Report.

The Board is currently comprised of eight Directors, five of whom are determined by the Board to be independent. AACo's Chairman, Donald McGauchie, is an independent director.

It is the Board's responsibility to assess and monitor the independence of Directors, as required under the ASX Corporate Governance Principles and Recommendations ('CGPR') published by the ASX Corporate Governance Council.

Under the Company's Board Charter, the Board will determine whether or not a Director is independent. For the purposes of making a determination as to whether a Director is independent the Board will consider, amongst other things, whether or not the Director:

- > Is a substantial security holder of the Company or an officer of, or otherwise associated with, a substantial security holder of the Company;
- > Within the last three years has been employed in an executive capacity by the Company or one of its subsidiary companies;
- > Has been in the last three years, a partner, director or senior employee in a provider of material professional services to the Company or any of its subsidiaries;
- > Within the last three years has been in a material business relationship (e.g. as a customer or supplier) with the Company or any of its subsidiaries, or an officer of or otherwise associated with someone with such a relationship;
- > Has a material contractual relationship with the Company or its subsidiaries other than as a Director;
- > Has close family ties with any person who falls within any of the categories described above;
- > Has been a Director of the Company for such a period that his or her independence may have been compromised;
- > Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

In accordance with the guidelines above, the following Directors of the Company during the period were determined to be independent.

Mr. D. McGauchie	Chairman, Non-executive Director	Appointed 19 May 2010
Mr. T. Keene	Non-executive Director	Appointed 5 October 2011
Mr. S. Black	Non-executive Director	Appointed 5 October 2011
Mr. D. Crombie	Non-executive Director	Appointed 5 October 2011
Mr. A. Abraham	Non-executive Director	Appointed 7 September 2014

The following Directors of the Company during the period were determined to be non-independent:

Mr. J. Strong	Mr. J. Strong who was appointed 24 January 2014 is not considered independent by virtue of his executive office as Managing Director and Chief Executive Officer.
Dr. S. Dissanayake	Dr. Shehan Dissanayake is not considered independent as he is an officer of Tavistock Group which controls the AA Trust which is a major 34.98% shareholder of the Company.
Mr. N. A. Reisman	Mr. N. Reisman is not considered independent as he is an officer of Tavistock Group which controls the AA Trust which is a major 34.98% shareholder of the Company.

- > All Board committees are comprised only of non-executive Directors and each Chair of a committee or subcommittee is an independent Director.

There are procedures in place, agreed by the Board, to enable Directors in furtherance of their duties to seek independent professional advice at the Company's expense.

The term in office held by each Director in office at the date of this report is as follows:

NAME	TERM IN OFFICE
<b>Directors</b>	
Mr. D. McGauchie	6 years 1 month
Mr. T. Keene	4 years 7 months
Mr. S. Black	4 years 7 months
Mr. D. Crombie	4 years 7 months
Dr. S. Dissanayake	4 years 1 month
Mr. A. Abraham	1 year 8 months
Mr. J. Strong	2 years 4 month
Mr. N. A. Reisman	1 month

For further biographical details, refer to pages 2 to 3 inclusive.

## Corporate Governance Statement (continued)

For additional details regarding Board appointments, please refer to our website.

### Board Skills Matrix

The aim of the Board Skills Matrix is to set out the mix of skills that the Board currently has and is looking to achieve. It is a summary of the Company's internal assessments of the Board. Information is obtained from a Director review of skills and competencies completed for each Director. This information is summarised into the Board Skills Matrix.

The board recognises that each Director will not necessarily possess experience in all areas relevant to the Company's operations so seeks to ensure that its membership includes an appropriate mix of directors with skills, knowledge and experience in agriculture, other relevant industry sectors, general management and finance. A summary of the Board's skills, knowledge and experience is set out in the table below:

<i><b>Skill/knowledge/experience</b></i>	<i><b>Out of 8 Directors</b></i>
<b>Leadership and Governance</b>	
Organisational governance	8
Strategy	8
Government relations	5
Previous ASX NED experience	4
Previous ASX CEO experience	1
<b>Operations</b>	
Environment, health and safety	5
Work health and safety committee experience	5
Agribusiness	6
Farmer or producer	4
Innovation	4
Information Technology	2
<b>Sectoral Experience</b>	
Livestock	5
Beef manufacturing	2
Sales	2
Branding and marketing	2
<b>Finance, Capital management and risk</b>	
Formal accounting and finance qualifications (CPA or CA)	5
Capital restructuring	4
Audit Committee experience	7
Legal	2
<b>People</b>	
People and culture	8
Remuneration Committee experience	6
<b>Geographic experience</b>	
International markets	8
Asian markets	7
USA markets	5



### **Performance**

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators. Board succession planning is an important part of the governance process. The most recent external performance evaluation of the Board and the Board committees was undertaken in 2014 and various recommendations from the review were implemented during the 2015 financial year. In FY2016, an informal performance evaluation of the Board was undertaken by the AACo Chairman.

A copy of the Company's Board Evaluation Process is available on the Company's website.

The Board ensures that new directors are inducted to the company appropriately, including visits to specific company operations and briefings by key executives. Directors are also provided with ongoing professional development and training programs to enable them to develop and maintain their skills and knowledge need to perform their roles.

### **Trading Policy**

Under the Company's Share Trading Policy, a Director, executive or employee must not trade in any securities of the Company at any time when they are in possession of unpublished, price sensitive information in relation to those securities.

Before commencing to trade, key management personnel must first notify and obtain the approval of the Company Secretary to do so and a Director must first obtain the approval of the Chairman.

As required by the ASX Listing Rules, the Company notifies the ASX of any transactions completed by Directors in the securities of the Company. A copy of the Company's Share Trading Policy is also available on the Company's website.

### **Code of Conduct**

The Board has established Codes of Conduct applicable to Directors, senior executives and employees with the objective of enhancing the Company's reputation for fair and responsible dealing and to help to maintain the high standards of corporate and individual behaviour throughout the Company. The Company's Code of Conduct aims to protect the interests of shareholders, customers, employees and suppliers by promoting a culture of accountability and responsibility.

A copy of the Company's Code of Conduct is available on the Company's website.

### Diversity Policy

AACo has a formal diversity policy, which was established in January 2012. The Company is committed to equal opportunity and diversity. Diversity of gender, sexual orientation, age, ethnicity, race, religion, culture and background, style, skills and experience all add to our capability to develop and maintain a high performing workforce with the ability to take advantage of the diverse challenges and opportunities we face in Australia and around the globe.

Broad diversity is encouraged and valued. While the Company is committed to fostering diversity at all levels, culture and gender diversity have been and continue to be a priority for the Company.

The table below outlines the diversity objectives established by the Board, the steps taken during the year to achieve these objectives, and the outcomes.

OBJECTIVES	PLAN	OUTCOME
Establish Baseline Employee Satisfaction for female employees.	Conduct of Employee Engagement Survey in November 2014. The next survey to review female employee engagement is to be conducted August 2016	<ul style="list-style-type: none"> <li>&gt; Female Staff Engagement surveyed at 67% positive.</li> <li>&gt; Female Staff Engagement target of 72% positive (calendar year 2016)</li> </ul>
Enhance female employee skills (including management and supervisory skills) to support promotion to more senior roles.	Participation in AACo Management Capability Program 2016.	<ul style="list-style-type: none"> <li>&gt; All female employees in management/supervisory roles completed the AACo Management Capability Program during 2016 to support development and management skills.</li> <li>&gt; First female appointment to 'non-traditional' role of Station Manager during 2016.</li> </ul>
Enhance the AACo Graduate Program to optimise female participation.	Develop editorial features (internal and external promotion) to encourage female interest in AACo Graduate and career opportunities.	<ul style="list-style-type: none"> <li>&gt; 100% retention of female graduates completing program at end 2015 (80% of graduate program intake were female)</li> <li>&gt; 50% of Graduate intake 2016 are female.</li> <li>&gt; Female graduates featured widely in internal and external media</li> </ul>
Review Internal policies to identify opportunities to improve female employee retention.	Review of relevant policy and procedures conducted annually.	<ul style="list-style-type: none"> <li>&gt; Changes to improve parental leave entitlement and flexible working arrangements implemented.</li> </ul>

During the year no appointments were made which would alter the gender diversity within senior management although as detailed above, for the first time, a female has been appointed to a senior non-traditional role of Station Manager and 5 additional female employees were appointed to senior supervisory roles within the Pastoral, Farming and Feedlot business units in 2016.

Whilst there are no female Directors on the AACo Board at the present time, the proportion of female employees to male employees within the AACo Group has reduced from 37% female at end of March 2015 to 33% female end of March 2016, due to higher proportion of male employees employed at the Livingstone Beef Processing Facility during the year.

AACo has a proud history of engaging with Indigenous Australians as employees and, through partnership with Government and the Indigenous Land Council, providing employment and training opportunities for Indigenous people. The Company has partnered with the Northern Territory Cattleman's Association and Indigenous Land Council to provide employment and training for young indigenous people seeking a career in the Cattle Industry.

The Charter for the Nomination Committee includes specific diversity criteria to ensure diversity is considered in the Board renewal process. The duties of the Staff and Remuneration Committee include:

- > Reviewing and making recommendations to the Board on the diversity policy to ensure it is in line with applicable legislation and governance principles;
- > In conjunction with the Nomination Committee ensuring the application of diversity policy to Board appointments and succession;
- > Making recommendations to the Board regarding the diversity policy and strategies to address Board diversity;
- > Monitoring the application of diversity policy to executive appointments and successions;
- > Review and report on the relative proportion of women and men in the AACo workforce through the Commonwealth Government Gender Equity Report; and
- > Reviewing remuneration by gender.

### Nomination Committee

The Board has established a Nomination Committee, which is responsible for assessing the necessary and desirable competencies of Board members, reviewing Board succession plans and working with the Chairman in evaluating the Board's performance. The Nomination Committee comprises Non-executive Directors and the following Directors were committee members during the year:

Mr. D. McGauchie (Chair)  
Mr. T. Keene  
Mr. S. Black  
Mr. D. Crombie  
Dr. S. Dissanayake  
Mr A. Abraham

For details of Directors attendance at meetings of the Nomination Committee, refer to the Directors' Report.

For additional details regarding the role and responsibilities of the Nomination Committee including its charter, please refer to our website.

### Audit and Risk Management Committee

The Audit and Risk Management Committee operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework and risk management framework exists within the entity. With respect to internal controls, this includes controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated responsibility for establishing and maintaining a framework of internal control, risk management and ethical standards to the Audit and Risk Management Committee.

The members of the Audit and Risk Management Committee during the year were:

Mr. S. Black (Chair)  
Mr. D. Crombie  
Mr. T. Keene

The Audit and Risk Management Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit Committee are Non-executive Directors.

The members of the Audit and Risk Management Committee and their qualifications are shown in this annual report on pages 2 to 3 of the Directors' Report.

For details on the number of meetings of the Audit and Risk Management Committee held during the year and the attendees at those meetings, refer to the Directors' Report.

For additional details regarding the Audit and Risk Management Committee including a copy of its charter, please refer to our website.

### Risk Management

The Board is responsible for the overall corporate governance and risk management of AACo. It has responsibility for overseeing AACo's risk profile, for approving and overseeing the framework for managing risk and for setting appropriate tolerance levels for each risk group. The tasks of undertaking and assessing risk management and internal control effectiveness are delegated to Management through the MD/CEO, including responsibility for design, day-to-day implementation, and management of the Company's risk management and internal control systems. Management reports to the Board Audit and Risk Management Committee and then to the Board on the Company's key risks and the extent to which it believes these risks are being adequately managed.

At least once a year, the Company carries out a formal risk review, including revision of insurance policies that the Company has in place. The review is overseen by the Audit and Risk Management Committee and the most recent review was carried out in the 2016 financial year. Summaries of the Company's material business risks are kept in the Enterprise Risk Register which was reviewed and approved by the Board during the period. The Company has a risk aware culture, and all members of the Management team have a responsibility for risk in their area.

AACo does not maintain an internal audit function, as the Board believes that the delegation of risk management and internal control oversight to the Audit and Risk Management Committee is appropriate for the Company at this point in time.

Management carries out risk specific management activities in six broad families:

- > Strategic Risks – the risks associated with determining the direction of the business
- > Production Risks – the risks associated with producing the volume and quality of cattle, beef and crops
- > Financial Risks – the risks associated with the volatility in commodity prices, availability of funding and counterparty credit
- > Commercial and Asset Continuity Risks – the risks associated with on-going business operations
- > Legal and Compliance Risks – the risks associated with breaches of the law and regulations
- > People and Culture Risks – the risks associated with the employment of staff

To assist stakeholders in understanding the nature of the risks faced by the Company, the Board has prepared a list of key risks, taken from within the risk families identified above, as part of this Principle 7 disclosure. This list is not exhaustive, and is subject to change based on underlying market events. The key risks are:

- > Workplace Health and Safety
- > Weather
- > Livingstone Beef Processing Facility
- > Representation & Reporting
- > Accreditations, Industry Codes, Licences and Food Safety
- > Animal Welfare
- > Environmental
- > Reputation & Brand
- > Market Development and Access
- > Cyber & E-commerce Security

AACo is committed to identifying and managing the economic, environmental and social sustainability risks that could substantially impact our ability to create or preserve value for our key stakeholders.

AACo exercises strong fiscal control through rigorous management of capital and operational budgets, including sensitivity analysis on financial forecasts. With the AACo business strategy transformation from a production-led pastoral company into a vertically integrated branded beef business, this further supports AACo value creation and increased control through the supply chain, with planned ongoing economic benefits.

AACo manages risks related to environmental sustainability across our stations, feedlots and the Livingstone Beef Processing Facility and corporate office, with the goal of compliance with all regulations.

AACo operations are predominantly across Queensland and Northern Territory (and smaller operations in northern West Australia), where we play a significant role in the communities where we operate. Whether this is employment opportunities for some members of the local community, engaging local supplier companies and contractors, through to sponsorship and support of community events, AACo takes an active involvement and is well regarded in this respect.

Overall AACo manages these types of risks as part of the overall risk management framework and meets the responsibilities outlined in the ASX Corporate Governance Principles, with regular review and reporting across management and through the Audit and Risk Management Committee and oversight by the Board.

The Board has a number of mechanisms in place to ensure that Management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- > Board approval of a strategic plan, which encompasses the Company's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk.
- > Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets.

AACo has a framework for managing risk across the Company. The approach to risk management takes into account the principles and guidelines as outlined in the Australian / New Zealand Standard AS/NZS ISO 31000:2009. Specific documents recognise the diverse business operations of AACo. These documents convey the acceptable risk levels, key risk management responsibilities, the risk identification and assessment processes and governance. Key documents supporting risk management include:

- > Risk Appetite Statement, outlines the Board's expectation with respect to strategic, financial and operational decision making and the associated acceptable risk tolerance levels in pursuit of company objectives, taking into account the wider environment in which AACo operates.
- > The Risk Management Policy (published on the Company's website) outlines the key governance responsibilities for managing risk across AACo and also outlines the key risk focus areas to be considered as part of the risk assessment process.
- > A Risk Management Framework provides a detailed and specific guidance on how AACo manages risk on a day-to-day basis, and outlining the specific risk areas for identification, assessment, rating and reporting.
- > An internally managed Quality Management System with emphasis on compliance.
- > An online Enterprise Risk software application, providing a central repository for AACo risks.

### CEO and CFO Certification

Prior to the Board's approval of the Company's 2016 financial report, the MD/CEO and CFO provided a declaration to the Board:

- > that, in their opinion the financial records were properly maintained, that the financial statements complied with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company
- > that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

The Board notes that due to its nature, internal control assurance from the MD/CEO and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgment, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not, and cannot be, designed to detect all weaknesses in control procedures.

In response to this, internal control questions are required to be completed by the key management personnel of all significant business units, including finance managers, in support of these written statements.

### Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Staff and Remuneration Committee links the nature and amount of the Managing Director's/CEO's and key management personnel's remuneration to the Company's financial and operational performance. In relation to the payment of bonuses, incentives and the award of performance rights, discretion is exercised by the Board having regard to the overall performance of the Company and the performance of the individual during the period.

The expected outcomes of this remuneration structure are:

- > Retention and motivation of key executives;
- > Attraction of high quality management to the Company; and
- > Performance incentives which allow executives to share in the success of the Company.

For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by Directors and executives in the current period please refer to the Remuneration Report, which is contained within the Directors' Report.

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves. There is no scheme to provide retirement benefits to non-executive directors.

### Staff and Remuneration Committee

The Board has a Staff and Remuneration Committee, comprising three Non-executive Directors. The Committee is chaired by an independent director. Further information on the Committee's role, responsibilities and membership can be seen at [www.aaco.com.au](http://www.aaco.com.au).

The members of the Staff and Remuneration Committee during the twelve months to 31 March 2016 were:

Mr. D. Crombie (Committee Chair)  
Mr. D. McGauchie  
Mr. T. Keene

The members of the Staff and Remuneration Committee and their qualifications are shown in this annual report on pages 2 to 3 of the Directors' Report.

For details on the number of meetings of the Staff and Remuneration Committee held during the period and the attendees at those meetings, refer to the Directors' Report.

For additional details regarding the Staff and Remuneration Committee including a copy of its charter, please refer to our website.

When considered appropriate, the Board obtains independent advice regarding Non-executive Directors' remuneration and the remuneration of key management personnel.

No Director or executive uses hedging instruments to limit their exposure to risk on either shares, performance rights or options in the Company. The Company's policy is that the use of such hedging instruments is prohibited.

For details of the amount of remuneration and all monetary and non-monetary components for all of the Directors and each of the key executives during the year, refer to the remuneration report.

There is no scheme to provide retirement benefits (other than superannuation) to Non-executive Directors.

### Continuous Disclosure and Shareholder Communication Policy

Pursuant to Principle 6, the Company's policy is to provide timely, open and accurate information to all stakeholders, including shareholders, regulators and the wider investment community. The Company has developed policies and procedures in relation to disclosure and compliance with the ASX Listing Rules disclosure requirements. The ASX liaison person is the Company Secretary/General Counsel.

A copy of the Company's Continuous Disclosure and Shareholder Communication Policy is available on the Company's website, [www.aaco.com.au](http://www.aaco.com.au).

The Company is committed to:

- > Ensuring that shareholders and the financial markets are provided with full and timely information about the Company's activities in a balanced and understandable way.
- > Complying with continuous disclosure obligations contained in the ASX listing rules and the Corporations Act.
- > Communicating effectively with its shareholders and making it easier for shareholders to communicate with the Company.

To promote effective communication with shareholders and encourage effective participation at general meetings, information is communicated to shareholders:

- > Through release of information to the market via ASX.
- > Through the distribution of the annual report and notices of annual general meeting.
- > Through shareholder meetings and investor relations presentations.
- > Through letters and other forms of communications directly to shareholders.
- > By posting relevant information on the Company's website [www.aaco.com.au](http://www.aaco.com.au).

Shareholders can elect to receive all communications electronically, as hard copy or not to receive some communication materials by contacting the share registry. Shareholders have the option to send communications to the Company and its share registry service provider electronically. Specifically shareholders can send communications to the share registry either by email ([registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)) or online via a secured website at <https://investorcentre.linkmarketservices.com.au>.

All shareholders are encouraged to attend and/or participate in the Company's Annual General Meeting. Shareholders can attend in person or by proxy. Directors and senior executives attend the meeting.

The Company's website [www.aaco.com.au](http://www.aaco.com.au) has a dedicated investor relations and media section for the purpose of publishing all important company information and relevant announcements made to the market and facilitating effective communications with its investors.

The external auditors are required to attend the annual general meetings and are available to answer any shareholder questions about the conduct of the audit and preparation of the audit report.

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## Consolidated Income Statement

For the year ended 31 March 2016

	NOTE	31 MAR 2016 \$000	31 MAR 2015 \$000
<b>Revenue</b>			
Meat sales		428,272	267,622
Live cattle sales		61,084	70,546
		489,356	338,168
Cattle fair value adjustments	A3	274,578	209,900
		763,934	548,068
Cost of meat sold		(335,145)	(238,764)
Deemed cost of live cattle sold		(61,084)	(70,546)
Cattle expenses		(128,614)	(98,451)
<b>Gross operating margin</b>	A2	239,091	140,307
Other income	F3	10,181	12,460
<b>Expenses</b>			
Employee expenses	F3	(50,808)	(43,196)
Administration costs		(26,995)	(25,793)
Other operating costs		(30,356)	(29,110)
Property costs		(8,946)	(9,721)
Depreciation and amortisation		(20,450)	(15,710)
Change in fair value of property	A4	6,181	3,612
<b>Profit before finance costs and income tax expense</b>		117,898	32,849
Finance costs	F3	(20,816)	(20,793)
<b>Profit before income tax</b>		97,082	12,056
Income tax expense	F2	(29,275)	(2,433)
<b>Net profit after tax</b>		67,807	9,623
<b>EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
		<b>CENTS</b>	<b>CENTS</b>
Basic earnings per share	C5	12.7	1.8
Diluted earnings per share	C5	11.6	1.8

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.



## Consolidated Statement of Comprehensive Income

For the year ended 31 March 2016

	NOTE	31 MAR 2016 \$000	31 MAR 2015 \$000
<b>Profit for the year</b>		67,807	9,623
<b>Other comprehensive income</b>			
Items not to be reclassified to profit or loss:			
Fair value revaluation of land and buildings, net of tax	F4	51,703	11,090
Items to be reclassified subsequently to profit or loss:			
Changes in the fair value of cash flow hedges, net of tax	F4	4,236	(6,834)
<b>Other comprehensive income for the year, net of tax</b>		55,939	4,256
<b>Total comprehensive income for the year, net of tax</b>		123,746	13,879

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

## Consolidated Financial Statements (continued)

### Consolidated Statement of Financial Position As at 31 March 2016

	NOTE	31 MAR 2016 \$000	31 MAR 2015 \$000
<b>Current Assets</b>			
Cash	B1	14,659	12,285
Trade and other receivables	B4	23,705	29,855
Inventories and consumables	B3	34,116	36,803
Livestock	A3	235,053	200,077
Derivatives	C2	569	-
Other assets		1,799	1,566
<b>Total Current Assets</b>		<b>309,901</b>	<b>280,586</b>
<b>Non-Current Assets</b>			
Livestock	A3	328,195	265,109
Property, plant and equipment	A4	741,784	668,396
Intangible assets		3,239	-
<b>Total Non-Current Assets</b>		<b>1,073,218</b>	<b>933,505</b>
<b>Total Assets</b>		<b>1,383,119</b>	<b>1,214,091</b>
<b>Current Liabilities</b>			
Trade and other payables	B5	32,775	34,205
Provisions		3,715	3,370
Borrowings	C1	4,176	4,538
Derivatives	C2	8,892	15,519
<b>Total Current Liabilities</b>		<b>49,558</b>	<b>57,632</b>
<b>Non-Current Liabilities</b>			
Provisions		1,798	2,075
Borrowings	C1	365,194	364,902
Deferred tax liabilities	F2	80,433	27,184
<b>Total Non-Current Liabilities</b>		<b>447,425</b>	<b>394,161</b>
<b>Total Liabilities</b>		<b>496,983</b>	<b>451,793</b>
<b>Net Assets</b>		<b>886,136</b>	<b>762,298</b>
<b>Equity</b>			
Contributed equity	C3	461,213	461,213
Reserves	F4	366,085	310,054
Retained earnings/(losses)		58,838	(8,969)
<b>Total Equity</b>		<b>886,136</b>	<b>762,298</b>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

## Consolidated Statement of Changes in Equity

For the year ended 31 March 2016

	<b>CONTRIBUTED EQUITY</b> (NOTE C3) <b>\$000</b>	<b>RESERVES</b> (NOTE F4) <b>\$000</b>	<b>RETAINED EARNINGS/ (LOSSES)</b> <b>\$000</b>	<b>TOTAL EQUITY</b> <b>\$000</b>
<b>At 1 April 2014</b>	460,510	305,862	(18,592)	747,780
Profit for the year	-	-	9,623	9,623
Other comprehensive income	-	4,256	-	4,256
<b>Total comprehensive income for the year</b>	-	4,256	9,623	13,879
<b>Transactions with owners in their capacity as owners:</b>				
Issue of share capital, net of transaction costs	469	-	-	469
Issue of performance rights from share-based payment	234	(234)	-	-
Cost of share-based payment	-	170	-	170
<b>At 31 March 2015</b>	461,213	310,054	(8,969)	762,298
<b>At 1 April 2015</b>	461,213	310,054	(8,969)	762,298
Profit for the year	-	-	67,807	67,807
Other comprehensive income/(loss)	-	55,939	-	55,939
<b>Total comprehensive income for the year</b>	-	55,939	67,807	123,746
<b>Transactions with owners in their capacity as owners:</b>				
Issue of share capital, net of transaction costs	-	-	-	-
Issue of performance rights from share-based payment	-	-	-	-
Cost of share-based payment	-	92	-	92
<b>At 31 March 2016</b>	461,213	366,085	58,838	886,136

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## Consolidated Statement of Cash Flows

For the year ended 31 March 2016

	NOTE	31 MAR 2016 \$000	31 MAR 2015 \$000
<b>Cash flows from operating activities</b>			
Receipts from customers		508,535	336,861
Payments to suppliers, employees and others		(468,084)	(397,570)
Interest received		155	346
Net operating cash inflow/(outflow) before interest and finance costs		40,606	(60,363)
Payment of interest and finance costs		(18,817)	(15,518)
Net cash inflow/(outflow) from operating activities	B2	21,789	(75,881)
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment and other assets		(19,595)	(66,960)
Proceeds from sale of property, plant and equipment		180	643
Net cash outflows from investing activities		(19,415)	(66,317)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares net of transaction costs		-	460
Proceeds from borrowings net of transaction costs		25,000	84,829
Repayment of borrowings		(25,000)	-
Net cash inflow from financing activities		-	85,289
Net increase/(decrease) in cash		2,374	(56,909)
Cash at the beginning of the year		12,285	69,194
Cash at the end of the year	B1	14,659	12,285

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

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### **A Financial Performance**

Provides information on the key areas of the business considered most relevant by the directors and summarises the accounting policies, judgements and estimates relevant to understanding these areas.

### **A1 Significant matters**

#### **Safety**

In FY16, AACo implemented a number of initiatives to improve safety performance. These included introducing aggressive strategies and targets to improve our safety culture and reduce injury rates, and engaging and empowering our people to improve Safety, Health and Wellbeing. The commitment to improving safety outcomes has resulted in a 44% decrease in LTI Frequency Rates.

#### **Funding**

The Company secured improved bank terms during FY16 to provide greater flexibility and reduce the cost of funding. The existing bank debt facility of \$400 million has now been split into two separate facilities - Facility A of \$250 million and Facility B of \$150 million. The total commitment of \$400 million remains the same.

The resulting outcomes are:

- o Increased funding flexibility
- o Improved alignment between the type of funding and the underlying asset base
- o Reduced funding costs

#### **Property Portfolio**

The Company purchased Thorner Station (Queensland) for \$4.1 million in early November 2015. Thorner Station is a 46,800 hectare property surrounded by AACo's Headingly Station on all sides, and fits naturally into the existing Headingly operation producing F1 Wagyu progeny for the F1 Wagyu supply chain. Operational and cost synergies will improve the operating performance at Headingly.

In September 2011, AACo entered into an agistment agreement with Tipperary Group of Stations. With the increasing emphasis on utilising Pell and LaBelle Stations for Northern Beef supply, AACo did not to exercise the option to renew the agreement, and fully exited the property by June 2015.

#### **Property Revaluation**

The Company recorded an \$80 million increase in the value of the company's property portfolio following an independent valuation by CBRE during FY16. The revaluation reflects improvements in carrying capacity as well as increased activity and sale prices for recent property sales in Northern Australia.

#### **Herd Profile**

The closing branded herd size has decreased by 13% or 67.6 thousand head (24.4 mil kg LW) in FY16. This included a 19 thousand head attrition adjustment. The Company's ability to estimate attrition has improved because of the ongoing investment in individual animal identification systems. The closing herd position was also impacted by lower cattle purchases.

#### **Herd Valuation**

Market value adjustments arising from market price changes to the herd values at the close of the period resulted in an unrealised cattle price gain of \$169.8 million driven by an increase in cattle market prices.

## Notes to the Consolidated Financial Statements (continued)

### A2 Operating margin

Operating margin represents value added through the production chain. Margin is achieved through sales of meat products, live cattle and cattle production (pastoral and feedlot).

	NOTE	31 MAR 2016 \$000	31 MAR 2015 \$000
<b>Meat sales</b>			
Sales		428,272	267,622
Cost of meat sold (1)		(335,145)	(238,764)
Operating margin		93,127	28,858
<b>Live cattle sales</b>			
Sales		61,084	70,546
Cost of cattle sold (2)		(61,084)	(70,546)
Operating margin		-	-
<b>Cattle production</b>			
Fair value adjustments	A3	274,578	209,900
Cattle expenses		(81,371)	(48,702)
Feedlot expenses		(47,243)	(49,749)
Operating margin		145,964	111,449
<b>Gross operating margin</b>		<b>239,091</b>	<b>140,307</b>

- (1) This includes the transfer of cattle at the applicable fair value at the time they leave the property gate en-route to a processing plant.
- (2) This represents the fair value of the cattle at the time of live sale. At that time the cost of cattle sold equates to the recorded fair value and hence margin is earned through the cattle production process.

Refer to note A3 for financial information and accounting policies related to Livestock.

## Notes to the Consolidated Financial Statements (continued)

### A3 Livestock

<b>Cattle at fair value</b>	<b>31 MAR 2016 \$000</b>	<b>31 MAR 2016 Head</b>	<b>31 MAR 2015 \$000</b>	<b>31 MAR 2015 Head</b>
Current	235,053	177,412	200,077	230,267
Non-current	328,195	349,204	265,109	367,292
Total livestock	563,248	526,616	465,186	597,559

<b>Livestock movement</b>	<b>31 MAR 2016 \$000</b>	<b>31 MAR 2015 \$000</b>
Opening carrying amount	465,186	383,047
Changes in fair value	274,578	209,900
Purchases of livestock	100,307	79,965
External sale of livestock less selling expenses	(58,098)	(63,909)
Transfers for meat sales	(218,725)	(143,817)
Closing carrying amount	563,248	465,186

<b>Cattle fair value adjustments</b>	<b>31 MAR 2016 \$000</b>	<b>31 MAR 2015 \$000</b>
Market value movements <sup>(1)</sup>	169,783	64,180
Biological transformation <sup>(2)</sup>	70,793	104,181
Natural increase	64,204	53,793
Attrition	(29,979)	(12,051)
Other	(223)	(203)
Total cattle fair value adjustments	274,578	209,900

<sup>(1)</sup> As a biological asset, AASB 141 Agriculture requires the livestock to be valued at fair value at all times prior to sale or harvest. As such, value increases occur through change in fair values rather than sales margin.

<sup>(2)</sup> Biological transformation in accordance with Australian Accounting Standard AASB 141 Agriculture, includes reclassification of an animal as it moves from being a branded calf and progresses through the various stages to become a trading animal and then as it ages. All these changes occur and are measured before the ultimate sale (cash realisation).

### Accounting Policies – Livestock

Livestock is measured at fair value less costs to sell, with any change recognised in the income statement. Costs to sell include all costs that would be necessary to sell the assets, including freight and direct selling costs.

The fair value of livestock is based on its present location and condition. If an active or other effective market exists for livestock in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. Where we have access to different markets then the most relevant market is used to determine fair value. The relevant market is defined as the market "that access is available to the entity" to be used at the time the fair value is established.

If an active market does not exist then we use one of the following, when available, in determining fair value:

- > the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period; or
- > market prices, in markets accessible to us, for similar assets with adjustments to reflect differences; or
- > sector benchmarks.

In the event that market determined prices or values are not available for livestock in its present condition we may use the present value of the expected net cashflows from the asset discounted at a current market determined rate in determining fair value.



## Notes to the Consolidated Financial Statements (continued)

### Livestock fair value

At the end of each reporting period, we measure livestock at fair value. The fair value is determined through price movements, natural increase and the weight of the herd.

We recognise the net increments or decrements in the market value of livestock as either revenue or expense in the income statement, determined as:

- > The difference between the total fair value of livestock recognised at the beginning of the financial year and the total fair value of livestock recognised as at the reporting date; less
- > Costs expected to be incurred in realising the market value (including freight and selling costs).

Fair Value Inputs are summarised as follows:

Level 1 Price Inputs – are quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 Price Inputs – are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 Price Inputs – are inputs for the asset or liability that are not based on observable market data (unobservable inputs).

FAIR VALUE INPUT	CATTLE TYPE	31 MAR 2016 \$000	31 MAR 2016 Head	31 MAR 2015 \$000	31 MAR 2015 Head
Level 1	None	-	-	-	-
Level 2	Commercial & stud breeding herd	291,740	265,618	240,908	281,419
Level 2	Trading cattle	137,125	130,254	114,525	175,871
Level 2	Unbranded calves	33,862	82,559	24,201	85,873
Level 3	Feedlot cattle	100,521	48,185	85,552	54,396
		563,248	526,616	465,186	597,559
Average value per head			\$1,070		\$778

TYPE	LEVEL	VALUATION METHOD
<b>Commercial &amp; stud breeding herd</b>	2	The value of these cattle (comprising principally females and breeding bulls) is determined by independent valuation with reference to prices received from representative sales of breeding cattle similar to the Company's herd. Prices for these cattle generally reflect a longer term view of the cattle market. Independent valuations were undertaken by Elders Limited. In performing the valuation, consideration is given to the class, age, quality and location of the herd. Direct comparisons are made to recent sales evidence in relevant cattle markets.
<b>Trading cattle</b>	2	Relevant market indicators used include Roma store cattle prices, abattoir market prices, and cattle prices received/quoted for the Company's cattle at the reporting date. Prices for these cattle generally reflect the shorter term spot prices available in the market place and vary based on the weight and condition of the animal.  Live export cattle (Victoria River Group, Anthony Lagoon & Darwin Group) are valued based on market quotes available at each reporting date.  Wagyu trading cattle are valued on the basis of independent valuation by Elders Limited. In performing the valuation, consideration is given to class, age, quality, genetics, recent comparable sales evidence and current market conditions for Crossbred Wagyu cattle.
<b>Unbranded calves</b>	2	The value of unbranded calves is determined with reference to Roma store calf prices at the Company's reporting date. The number of calves is determined by applying the percentage of branding assessed each year to the number of productive cows and the results of pregnancy testing.
<b>Feedlot cattle</b>	3	Feedlot cattle are valued internally by the Company as there is no observable market for them. The value is based on the estimated exit price per kilogram and the value changes for the weight of each animal as it progresses through the feedlot program. The key factors affecting the value of each beast are price/kg and average daily gain of weight. The average daily gain of weight is in the range of 0.8kgs to 2.0kgs. The value is determined by applying the average weight gain per day by the number of days on feed from induction to exit at which point the cattle are delivered to market. The value per animal is based on the breed and specifications of the animal and the market it is destined for. Significant increases (decreases) in any of the significant unobservable valuation inputs for feedlot cattle in isolation would result in a significantly higher (lower) fair value measurement.

## Notes to the Consolidated Financial Statements (continued)

Unbranded Calves	31 MAR 16 \$000	31 MAR 16 HEAD	31 MAR 15 \$000	31 MAR 15 HEAD
Calfaccrual opening	24,201	85,873	18,932	85,050
Movement <sup>1</sup>	(934)	(3,314)	183	823
Fair value adjustments	10,595	-	5,086	-
	33,862	82,559	24,201	85,873
Average value per head		\$410		\$282

<sup>1</sup>Unbranded calves are assessed at each reporting date based on information available at the time. The Company does not track individual calves until such time as they have been branded and recorded in the livestock management system.

Feedlot Cattle	31 MAR 16 \$000	31 MAR 16 HEAD	31 MAR 15 \$000	31 MAR 15 HEAD
Opening values	85,552	54,396	68,648	38,696
Inductions	130,342	99,115	116,262	104,755
Sales	(168,119)	(104,644)	(119,723)	(88,522)
Attritions & rations	(1,041)	(682)	(812)	(533)
Fair value adjustments recognised	53,787	-	21,177	-
	100,521	48,185	85,552	54,396
Average value per head		\$2,086		\$1,573

## Notes to the Consolidated Financial Statements (continued)

### A4 Property

<i>Property plant and equipment</i>	<i>Note</i>	<i>31 MAR 2016 \$000</i>	<i>31 MAR 2015 \$000</i>
Property and improvements at fair value		615,100	531,099
Industrial property and improvements at cost	F1	78,976	79,970
Industrial plant and equipment at cost	F1	25,638	26,370
Pastoral plant and equipment at cost	F1	22,070	30,957
Total property, plant and equipment		741,784	668,396

### Property and improvements at fair value

<i>31 MAR 2016</i>	<i>FREEHOLD LAND \$000</i>	<i>PASTORAL LEASES \$000</i>	<i>BUILDINGS AND IMPROVEMENTS \$000</i>	<i>TOTAL \$000</i>
Opening balance	48,771	391,785	90,543	531,099
Additions	-	2,037	6,372	8,409
Disposals	-	-	(7)	(7)
Net revaluation increment/(decrement) recognised in the Income Statement	989	5,192	-	6,181
Net revaluation increment/(decrement) recognised in asset revaluation reserve	15,759	58,102	-	73,861
Depreciation	-	-	(4,443)	(4,443)
Closing balance	65,519	457,116	92,465	615,100

<i>31 MAR 2015</i>	<i>FREEHOLD LAND \$000</i>	<i>PASTORAL LEASES \$000</i>	<i>BUILDINGS AND IMPROVEMENTS \$000</i>	<i>TOTAL \$000</i>
Opening balance	46,102	375,000	91,449	512,551
Additions	-	-	3,516	3,516
Disposals	-	-	(124)	(124)
Net revaluation increment/(decrement) recognised in the Income Statement	464	3,148	-	3,612
Net revaluation increment/(decrement) recognised in asset revaluation reserve	2,205	13,637	-	15,842
Depreciation	-	-	(4,298)	(4,298)
Closing balance	48,771	391,785	90,543	531,099

### Accounting policies – Property and improvements at fair value

Property and improvements, with the exception of industrial property and improvements, are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

Fair value is determined by the Directors with reference to work performed by external independent valuers and performed on an annual basis with reference to market-based evidence, which is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the statement of financial position, unless it reverses a revaluation decrement of the same asset previously recognised in the income statement. Any revaluation decrement is recognised in the Income Statement unless it directly offsets a previous increment of the same asset in the asset revaluation reserve. In addition, any accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal of property and improvements, any revaluation reserve relating to the particular asset being sold is transferred to the capital profits reserve.

All initial lump sum payments in respect of pastoral and perpetual property leases have been classified as land. The remaining lease payments are nominal and are therefore expensed to the income statement as incurred.

Refer to note F1 and note G3 for the financial information and accounting policies as they relate to property, plant and equipment at cost respectively.

## Notes to the Consolidated Financial Statements (continued)

### Fair value

In determining the fair value of respective pastoral leasehold and freehold land assets shown in the financial statements the Directors initiate periodic independent valuations through registered property valuers. Once these valuations have been considered and reviewed by the Directors they are then adopted as Directors' valuations.

The following valuation techniques and key inputs are used for the level 3 (there are no level 1 and level 2) property and improvement valuations:

31 MAR 2016 \$000	31 MAR 2015 \$000	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	31 MAR 2016 RANGE/ (AVERAGE)	31 MAR 2015 RANGE/ (AVERAGE)
530,700	269,400	Direct Comparison (Productive Unit Approach)	Number of adult equivalents	5,350 – 80,200 24,332	17,650 – 79,500 25,230
			Dollar per adult equivalents	\$900 – \$3,748 \$1,283	\$788 – \$1,277 \$1,068
			Number of properties	17	10
30,000	221,699	Direct Comparison (Hectare Rate Approach)	Dollar per hectare	\$920 \$920	\$45 – \$1,133 \$92
			Number of properties	1	8
54,400	40,000	Direct Comparison (Hectare Rate and Standard Cattle Unit Approach)	Dollar per hectare	\$3,127 – \$3,210 \$3,169	\$2,387 – \$2,484 \$2,436
			Standard cattle units	16,000 – 20,000 18,000	16,000 – 20,000 18,000
			Number of properties	2	2

An independent valuation was performed by valuers CBRE to determine the fair value using the market based direct comparison method. One of three direct comparison method techniques were utilised, being either a Productive Unit Approach, Hectare Rate Approach or a Summation Approach using Standard Cattle Units and Hectare Rate. Valuation of the assets was determined by analysing comparable sales and allowing for size, location, rainfall, water supply, seasonal conditions, structural capital works and other relevant factors specific to the property and improvements being valued. From the sales analysed, an appropriate rate per adult equivalent or hectare has been applied to the subject property and improvements. The effective date of the valuation is 31 March 2016.

Under the Productive Unit Approach a dollar per Adult Equivalent is adopted inclusive of all structures. This method takes into consideration the type and mix of land types, rainfall, extent of water, fencing and structural improvements, carrying capacity and potential and location to markets and services. An external expert, Dr Steve Petty of Spektrum, was engaged as part of the valuation process to perform an independent assessment of adult equivalent carrying capacity using a consistent methodology based on scientific analysis of grazing distribution, land system analysis, station and paddock stocking history and published data for the relevant regions.

Under the Hectare Rate Approach a range of dollar per hectare rates are applied to land components exclusive of all structures. This method takes into consideration the land type composition of the property and therefore the proportion of land that lies outside the watered area and its potential or lack thereof. The basis of assessment is direct comparison with sales evidence on an analysed hectare rate, excluding structures. The improved market value is determined from the summation of land with the added value of structures, such as residences, sheds and yards.

The Hectare Rate and Standard Cattle Unit Approach applies the same principles as the Hectare Rate Approach but includes a dollar per Standard Cattle Unit rate which is applied to feedlot infrastructure. The basis of assessment is direct comparison with sales evidence on an analysed standard cattle unit rate. The improved market value is determined from the summation of land and feedlot infrastructure with the added value of structures, such as residences, sheds and yards. The derived valuation amount for the buildings and yards is obtained from analysis of comparable sales evidence.

Significant increases (decreases) in any of the significant unobservable valuation inputs under the Productive Unit Approach, Hectare Rate Approach or Hectare Rate and Standard Cattle Units Approach in isolation would result in a significantly higher (lower) fair value measurement. Changes in seasonal conditions and rainfall would result in a significantly lower or higher carrying capacity, dollar per adult equivalent and dollar per hectare.

### Deemed Cost

If freehold land, pastoral leases, buildings and improvements were measured using the deemed cost model (the fair value of the assets in 2005 plus subsequent acquisitions at cost) the carrying amounts would be as follows:

	31 MAR 2016 \$000	31 MAR 2015 \$000
Deemed cost	313,286	299,435
Accumulated depreciation	(43,101)	(38,398)
Net carrying amount	270,185	261,037

## Notes to the Consolidated Financial Statements (continued)

### Pastoral leases

Our cattle stations are generally held under a leasehold agreement with the Crown. Leasehold properties in Queensland are mainly pastoral holdings which are rolling term leases with a maximum period of 50 years. In the Northern Territory, the pastoral leases we hold have been granted on a perpetual basis by the Northern Territory Government.

While there is no obligation for leases to be renewed by the Queensland Government at expiry, we are not presently aware of any reason why leases would not be renewed on substantially the same terms based upon past practice by the Queensland Government.

### A5 Segment Information

#### Identification of reportable segments

AASB 8 'Operating Segments' requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

During the year ended 31 March 2016, the structure of financial information provided to the Managing Director and Chief Executive Officer (the chief operating decision maker) has changed. Our systems of internal reporting to key management personnel are such that there is only one reportable segment as defined in AASB 8, this being the production and sale of beef.

Under the new internal reporting framework, the segments (also previously referred to as 'verticals') of Grass, Grain, Northern Beef and Corporate are no longer presented. Resource allocation and the assessment of performance is focused on the production and sale of beef through an integrated supply chain.

#### Revenues from external customers

REVENUES BY CUSTOMER LOCATION	31 MAR 2016 \$000	31 MAR 2015 \$000
Australia	154,430	149,290
Korea	80,472	51,546
USA	113,691	37,920
Japan	41,754	29,974
Other countries	99,009	69,438
Total revenue per income statement	489,356	338,168

Revenues of \$55,046,000 (31 March 2015: \$39,984,000) and \$49,603,000 (31 March 2015: \$11,331,000) were derived from two of the Company's major external customers. No other customer contributed to more than 10% of the Company's revenue.

#### Measurement of performance

Operating EBITDA is the key indicator used to monitor and manage the Company. It eliminates the potential distraction caused by unrealised cattle valuation adjustments being recorded in the financial results, and is a better reflection of actual financial performance under the control of management. Operating EBITDA assumes all Livestock inventory is valued on a \$/kg live-weight (LW) basis and is derived by adjusting statutory EBITDA to substitute the movement in inventory at market value with the movement in inventory at standard cost.

A reconciliation of Operating EBITDA to Statutory NPAT is provided below:

	31 MAR 2016 \$000	31 MAR 2015 \$000
Operating EBITDA	14,797	(3,591)
Difference between the movement of livestock inventory at standard cost versus market value	117,370	48,538
Statutory EBITDA	132,167	44,947
Depreciation and amortisation	(20,450)	(15,710)
Change in fair value of property	6,181	3,612
Statutory EBIT	117,898	32,849
Finance costs	(20,816)	(20,793)
Income tax expense	(29,275)	(2,433)
Net profit after tax	67,807	9,623

## Notes to the Consolidated Financial Statements (continued)

### B Working Capital

Provides information on the working capital items relevant to the management of the business.

#### B1 Net working capital

	Note	31 MAR 2016 \$000	31 MAR 2015 \$000
Cash		14,659	12,285
Inventory and consumables	B3	34,116	36,803
Trade and other receivables	B4	23,705	29,855
Trade and other payables	B5	(32,775)	(34,205)
Net working capital		39,705	44,738

#### B2 Cash

Reconciliation of net profit/(loss) after tax to net cash flows from operations	31 MAR 2016 \$000	31 MAR 2015 \$000
Net profit after income tax	67,807	9,623
Adjustments for:		
Depreciation and amortisation	20,450	15,710
Change in fair value of property	(6,181)	(3,612)
Loss on sale of property, plant and equipment	120	498
Capitalised interest	-	(2,424)
Amortisation of borrowing costs	2,190	2,228
Accruals in relation to capital projects	-	6,673
Non-cash share based payment expense	92	170
(Increment)/decrement in fair value of livestock	(98,062)	(82,139)
Changes in assets and liabilities:		
(Increase)/decrease in inventories	2,687	(10,392)
(Increase)/decrease in trade and other receivables	6,150	(17,234)
(Increase)/decrease in prepayments and other assets	(233)	607
(Decrease)/increase in deferred tax liabilities	29,277	2,433
(Decrease)/increase in trade and other payables	(1,430)	(4,037)
(Decrease)/increase in derivatives	(1,146)	5,605
(Decrease)/increase in provisions	68	410
Net cash (outflow)/inflow from operating activities	21,789	(75,881)

#### Non-cash financing and investing activities

Acquisition of assets by means of finance leases	2,884	6,591
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## Notes to the Consolidated Financial Statements (continued)

### B3 Inventory and consumables

	31 MAR 2016 \$000	31 MAR 2015 \$000
Meat inventory	21,400	18,949
Feedlot commodities	2,638	7,352
Bulk stores	6,279	5,937
Other inventory	3,799	4,565
	34,116	36,803

### B4 Trade and other receivables

	31 MAR 2016 \$000	31 MAR 2015 \$000
Trade receivables	20,898	23,259
Provision for impairment of receivables	(144)	(29)
	20,754	23,230
Other receivables	2,951	6,625
	23,705	29,855

Trade receivables are non-interest bearing and are generally on 14 day terms. An impairment is recognised when there is objective evidence that an individual trade receivable may not be collectible. The ageing of the trade receivables is outlined below:

	31 MAR 2016 \$000	31 MAR 2015 \$000
Current or past due under 30 days	19,699	20,012
Past due 31-60 days	561	2,930
Past due 61+ days	638	317
Total trade receivables	20,898	23,259

Our maximum exposure to credit risk is the net carrying value of receivables. We do not hold collateral as security, nor is it our policy to transfer (on-sell) receivables to special purpose entities. We refer you to note D1 for more information on the risk management policy of the Company.

### B5 Trade and other payables

	31 MAR 2016 \$000	31 MAR 2015 \$000
Trade payables	24,417	27,874
Other payables	7,059	5,318
Deferred revenue	1,299	1,013
	32,775	34,205

Trade payables are non-interest bearing and are normally settled on agreed terms which are generally up to 30 days. Other payables are non-interest bearing and have an average term of three months. Deferred revenue relates to payments received in advance on sales.

## Notes to the Consolidated Financial Statements (continued)

### C Funding and Capital Management

Explains the funding sources for the business and the capital management practices.

#### C1 Borrowings

	31 MAR 2016 \$000	31 MAR 2015 \$000
<b>Current</b>		
Obligations under financeleases	4,176	4,538
<b>Non-current</b>		
Obligations under financeleases	5,769	7,667
Secured bank loan facility	283,939	283,529
Convertible notes	75,486	73,706
	365,194	364,902

#### Secured bank loan facility

Facility A loans are repayable on 30 June 2018 and Facility B loans are repayable on 24 September 2017. The interest on these facilities is charged at the applicable BBSY rate + Margin. It is intended that the loans will be renewed at maturity date. The facility is currently drawn down by \$285,000,000 (31 March 2015: \$285,000,000) and is offset in the Statement of Financial Position by a prepaid facility participation fee of \$1,061,000 (31 March 2015: \$1,471,000).

Financing facilities are provided on a secured basis, with security given over all fixed and floating assets. Financial covenants are in place over the Company's Loan to Value Ratio (LVR). We have the following financing facilities available:

	31 MAR 2016 \$000	31 MAR 2015 \$000
Total available under Facility A and Facility B	400,000	400,000
Guarantee facility	3,000	3,000
Drawn-down	(286,454)	(286,604)
Unused	116,546	116,396

#### Convertible notes

The parent entity issued 160 subordinated convertible notes to an existing shareholder of the Company for \$80 million on 16 October 2013. The notes are unsecured and subordinated to the Company's senior bank debt. The notes expire on 30 September 2023 and the note holder may elect to cause redemption at the fifth anniversary of the issue date and annually thereafter. The coupon rate is the 6 month BBSW rate plus 0.15% subject to a floor of 3.0% per annum, payable semi-annually in arrears. The note holder is entitled to convert the notes into ordinary shares in the Company during the period 1 September 2014 until 15 days prior to maturity at \$1.15 per share, with no price payable on conversion. The number of underlying ordinary shares per convertible note is 434,783, or 69,565,280 ordinary shares for the full convertible notes issued. No convertible notes were converted or redeemed to 31 March 2016. The convertible notes are presented in the Statement of Financial Position as follows:

	31 MAR 2016 \$000	31 MAR 2015 \$000
Face value of notes issued	80,000	80,000
Other equity securities – value of conversion rights (note C3)	(6,700)	(6,700)
Fair value of embedded interest rate derivative in convertible note – at trade inception	(630)	(630)
Capitalised transaction costs	(1,546)	(1,546)
Accumulated amortisation	4,362	2,582
	75,486	73,706



## Notes to the Consolidated Financial Statements (continued)

### C2 Derivatives

	31 MAR 2016 \$000	31 MAR 2015 \$000
<b>Current assets</b>		
Foreign currency contracts	569	-
<b>Current liabilities</b>		
Interest rate swap contracts	7,290	10,467
Foreign currency contracts	-	2,490
Embedded interest rate derivative in convertible note	1,602	2,562
	8,892	15,519

#### Foreign currency contracts

<b>Sell FX/Buy AUD</b>	<b>NOTIONAL AMOUNTS (AUD) 31 MAR 16 \$000</b>	<b>NOTIONAL AMOUNTS (AUD) 31 MAR 15 \$000</b>	<b>AVERAGE EXCHANGE RATE 31 MAR 16 AUD/USD</b>	<b>AVERAGE EXCHANGE RATE 31 MAR 15 AUD/USD</b>
Sell USD Maturity 0-12 months	9,616	70,995	0.7178	0.8001

We fair value these contracts by comparing the contracted rate to the market rates for contracts with the same length of maturity. Foreign currency contracts are attributed to forward meat sale agreements. As these contracts are hedge accounted, the effectiveness is assessed in terms of the 80%-125% threshold prescribed by AASB139 with the effective portion of the movement accounted for in Other Comprehensive Income and the ineffective portion posted to profit or loss. The net fair value loss on foreign currency derivatives during the twelve months to 31 March 2016 was \$569,000 with \$495,000 effective and \$74,000 ineffective (12 months to 31 March 2015: \$2,490,000 with \$2,380,000 effective and \$110,000 ineffective).

#### Interest rate swap contracts

We have entered into interest rate swaps which are economic hedges, and are fair valued by comparing the contracted rate to the future market rates for contracts with the same length of maturity. Interest rate swaps are entered in order to manage the mix of borrowings between fixed and floating rates as per our Treasury Policy. The \$200 million of swaps have been designated as effective interest rate swaps and therefore satisfy the accounting standard requirements for hedge accounting. The \$200 million in swaps expire on 30 June 2018 in line with the expiry date of the bank facility.

As at the reporting date, the notional principal amounts and period of expiry of the interest rate swap contracts are as follows:

	31 MAR 2016 \$000	31 MAR 2015 \$000
0-1 years	-	-
1-5 years	200,000	200,000

The gain or loss from remeasuring the interest rate swaps at fair value is recognised in other comprehensive income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. It is reclassified into profit or loss when the hedged interest expense is recognised. In the twelve months to 31 March 2016 the gain or loss recognised for interest rate swaps into profit or loss was \$3,013,000 (twelve months to 31 March 2015: \$2,867,000). There was no hedge ineffectiveness in the current or prior year.

### C3 Equity

	31 MAR 16 SHARES	31 MAR 15 SHARES	31 MAR 16 \$000	31 MAR 15 \$000
Opening balance	532,824,721	532,294,404	461,213	453,810
Shares issued on exercise of performance rights	111,510	180,317	-	-
Shares issued on exercise of options	-	350,000	-	469
Issue of performance rights from share-based payments reserve	-	-	-	234
Value of conversion rights – convertible notes	-	-	-	6,700
Total contributed equity	532,936,231	532,824,721	461,213	461,213

## Notes to the Consolidated Financial Statements (continued)

### C4 Capital management

When managing capital, our objective is to safeguard our ability to continue as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. We also aim to maintain a capital structure that ensures the lowest cost of capital.

We monitor capital using the gearing ratio (net debt divided by total capital plus net debt) and our target gearing ratio is between 20.0% to 35.0%. We include within net debt, interest bearing loans and borrowings. For the Company's financial risk management objectives and policies refer to note D1.

<b>ASSET AND CAPITAL STRUCTURE</b>	<b>31 MAR 2016 \$000</b>	<b>31 MAR 2015 \$000</b>
<b>Debt:</b>		
Current interest-bearing loans and borrowings	4,176	4,538
Non-current interest-bearing loans and borrowings		
Obligations under finance leases	5,769	7,667
Bank loan facility <sup>(1)</sup>	285,000	285,000
Convertibles notes <sup>(1)</sup>	80,000	80,000
Bank guarantees	1,454	1,604
<b>Cash:</b>	(14,659)	(12,285)
<b>Net debt</b>	<b>361,740</b>	<b>366,524</b>
<b>Net equity</b>	<b>886,136</b>	<b>762,298</b>
<b>Total capital employed</b>	<b>1,247,876</b>	<b>1,128,822</b>
<b>Gearing (Net debt/net debt+equity)</b>	<b>29.0%</b>	<b>32.5%</b>

<sup>(1)</sup> The gearing ratio is calculated utilising the drawn-down balance of the bank loan facility and convertible notes with no offset for borrowing costs.

### C5 Earnings per share

The following reflects the income used in the basic and diluted earnings per share computations:

	<b>31 MAR 2016 \$000</b>	<b>31 MAR 2015 \$000</b>
Net profit attributable to ordinary equity holders of the parent (basic)	67,807	9,623
Interest expense on convertible notes, net of tax	2,344	-
Net profit attributable to ordinary equity holders of the parent (diluted)	70,151	9,623

The following reflects the weighted average number of ordinary shares used in the basic and diluted earnings per share computations:

	<b>31 MAR 2016 Number</b>	<b>31 MAR 2015 Number</b>
Weighted average number of ordinary shares (basic)	532,926,734	532,470,039
Adjustments for calculation of diluted earnings per share:		
Weighted average options, rights and convertible notes	69,782,192	438,150
Weighted average number of ordinary shares (diluted) as at 31 March	602,708,926	532,908,189

Convertible notes (refer note C1) were dilutive as at 31 March 2016 and have been included in the calculation of diluted earnings per share. Convertible notes were antidilutive in the prior period and were therefore excluded from the calculation of diluted earnings per share.

### C6 Dividends

No final or interim dividends were declared and paid during the twelve months to 31 March 2016 (twelve months to 31 March 2015: nil). There are no franking credits available for the subsequent financial year (31 March 2015: nil).

## Notes to the Consolidated Financial Statements (continued)

### D Financial Risk Management

Discusses the Company's exposure to financial risk and explains how this affects the Company's financial position and performance and what the Company does to manage these risks.

We manage our exposure to key financial risks in accordance with our financial risk management policy. The objective of the policy is to support the delivery of the Company's financial targets while protecting future financial security. The Audit and Risk Management Committee under the authority of the Board hold primary responsibility for identification and control of financial risks. The Board reviews and agrees policies for managing each of the risks identified. We use different methods to measure and manage the different types of risks to which we are exposed. The main risks arising from our financial instruments are interest rate, foreign currency, commodity, credit and liquidity risk.

### D1 Financial Risk

#### (i) Interest rate risk

Our policy is to manage our finance costs using a mix of fixed and variable rate debt. In accordance with our Treasury Policy, we maintain at least 50% of our borrowings at fixed rates which are carried at amortised cost. It is acknowledged that fair value exposure is a by-product of our attempt to manage our cash flow volatility arising from interest rate changes. To manage this mix in a cost-efficient manner, we enter into interest rate swaps, in which we agree to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. We regularly analyse our interest rate exposure taking into consideration potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

In 2014 we entered into interest rate swaps totalling \$200 million. These swaps expire on 30 June 2018 in line with the expiry date of the bank facility. The swaps have been designated as effective interest rate swaps and therefore satisfy the accounting standard requirements for hedge accounting. This resulted in a \$3,176,000 movement in other comprehensive income in the twelve months to 31 March 2016 (31 March 2015: \$7,098,000). At 31 March 2016, after taking into account the effect of interest rate swaps, approximately 70% (31 March 2015: 70%) of our borrowings are at a fixed rate of interest.

At the reporting date, we had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk:

	31 MAR 2016 \$000	31 MAR 2015 \$000
<b>Financial Assets</b>		
Cash assets	14,659	12,285
<b>Financial Liabilities</b>		
Bank loan	(85,000)	(85,000)
Convertible notes	(80,000)	(80,000)
Interest rate swaps	(7,290)	(10,467)
Embedded interest rate derivative	(1,601)	(2,562)
<b>Net exposure</b>	<b>(159,232)</b>	<b>(165,744)</b>

The following sensitivity analysis is based on reasonably possible changes in interest rates applied to the interest rate risk exposures in existence at the reporting date. Such a reasonably possible change is determined using historical interest rate movements for the preceding two year period.

JUDGEMENTS OF REASONABLY POSSIBLE MOVEMENTS:	EFFECT ON PROFIT BEFORE TAX \$000	EFFECT ON EQUITY \$000
<b>31 March 2016</b>		
+1% (100 basis points)	(960)	(4,500)
-1% (100 basis points)	960	4,500
<b>31 March 2015</b>		
+1% (100 basis points)	(604)	(8,500)
-1% (100 basis points)	604	8,500

## Notes to the Consolidated Financial Statements (continued)

### (ii) Foreign currency risk

The majority of our revenue is received in Australian dollars, although the prices received are influenced by movements in exchange rates, particularly that of the US dollar, Japanese yen, and Euro relative to the Australian dollar.

We have transactional currency exposures (refer note C2) arising from sales of meat in currencies other than in Australian dollars. We undertake forward sales in foreign currencies. All forward sales are hedged with foreign currency contracts to coincide with the expected receipt of foreign funds spread over the year.

Forward currency contracts must be in the same currency as the sold item. It is our policy not to enter into forward contracts or foreign exchange options until a firm commitment is in place. At 31 March 2016, substantially all foreign currency receivables were covered by forward currency contracts or foreign exchange contracts.

In compliance with our Treasury Policy we have hedged our foreign exchange exposure arising from committed sales. These foreign exchange contracts have been designated as effective hedges and therefore satisfy the accounting standard requirements for hedge accounting. This resulted in a \$495,000 movement in other comprehensive income and a \$74,000 movement in profit and loss in the twelve months to 31 March 2016 (31 March 2015: \$2,380,000 movement in other comprehensive income and a \$110,000 movement in profit and loss).

At reporting date we had the following mix of financial assets and liabilities exposed to foreign exchange risk.

	31 MAR 2016 EUR	31 MAR 2016 USD	31 MAR 2015 EUR	31 MAR 2015 USD
<b>Financial Assets</b>				
Trade receivables	125	11,372	74	12,381
Derivatives	-	569	-	-
<b>Financial Liabilities</b>				
Derivatives	-	-	-	(2,490)
<b>Net exposure</b>	125	11,941	74	9,891

At 31 March 2016, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, profit before tax and equity would have been affected as shown. The sensitivity analysis is based on a reasonably possible movement using observations of historical spot rates for the preceding two year period.

JUDGEMENTS OF REASONABLY POSSIBLE MOVEMENTS:	EFFECT ON PROFIT BEFORE TAX \$000	EFFECT ON EQUITY \$000
<b>31 March 2016</b>		
AUD/USD +10%	152	1,015
AUD/USD -10%	(185)	(1,240)
<b>31 March 2015</b>		
AUD/USD +10%	294	6,386
AUD/USD -10%	(359)	(7,806)

### (iii) Commodity price risk

We have transactional commodity price risk primarily in the sale of cattle and beef. Other commodity price exposures include feed inputs for our feedlot operations, and diesel. Purchases of commodities may be for a period of up to 12 months and partial hedging of these inputs may be for periods of up to 24 months.

Our exposure to derivative commodity price risk is minimal. We do not currently apply hedge accounting to our beef commodity price exposures as the derivatives do not meet the accounting standard requirements for hedge accounting. However, we have a policy whereby we will forward sell a significant proportion of our feedlot cattle sales for a period of up to 6 months. These contracts are entered into and continue to be held for the purpose of delivery of feedlot cattle arising from our expected sale requirements; and are classified as non-derivative, and are not required to be fair valued.

We enter into forward purchase contracts for grain commodities. This practice mitigates the price risk for the Company. As at 31 March 2016 we had forward purchased approximately 38% (31 March 2015: 48%) of our expected grain usage for the coming 12 months. These contracts are entered into and continue to be held for the purpose of grain purchase requirements; and are classified as non-derivative, and are not required to be fair valued. At the reporting date we had no commodity price exposures on forward sales and purchase contracts that are not designated as cash flow hedges.

### (iv) Credit Risk

Credit risk arises from our financial assets, which comprise cash, trade and other receivables and derivative instruments. Our exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets (as outlined in each applicable note). We do not hold any credit derivatives to offset our credit exposure.

## Notes to the Consolidated Financial Statements (continued)

With respect to receivables, the majority of our credit risk is in Australia and is generally concentrated in the meat processing industry. We manage our credit risk by maintaining strong relationships with a limited number of quality customers. The risk is also mitigated by paying an annual insurance premium in relation to certain sales overseas. In addition, receivable balances are monitored on an ongoing basis with the result that our experience of bad debts has not been significant. We have no significant concentrations of credit risk. Credit risk relating to trade receivables is disclosed in note B4.

### (v) Fair Values

As at 31 March 2016 and 31 March 2015, the only financial instruments recognised at fair value were interest rate swaps, forward currency contracts and the embedded interest rate derivative. These are valued using a level 2 method (refer to note C2) which estimates fair value using inputs that are observable either directly (as prices) or indirectly (derived from prices). The carrying amount of all other financial assets and liabilities approximates the fair value.

### (vi) Liquidity risk

Liquidity risk arises from our financial liabilities and our subsequent ability to repay the financial liabilities as and when they fall due. Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, convertible notes and finance leases.

We manage our liquidity risk by monitoring the total cash inflows and outflows expected on a monthly basis. We have established comprehensive risk reporting covering our business units that reflect expectations of management of the expected settlement of financial assets and liabilities.

The Company is exposed to counterparty credit risk from its operating activities (primarily from trade receivables) and from its financing activities. As at 31 March 2016, the mark-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

The following liquidity risk disclosures reflect all contractually fixed repayments and interest resulting from recognised financial liabilities and derivatives as of 31 March 2016. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract. However, where the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which we can be required to pay. When we are committed to make amounts available in instalments, each instalment is allocated to the earliest period in which we are required to pay.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows of financial instruments. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant and equipment and investments in working capital (e.g. inventories and trade receivables). These assets are considered in the Company's overall liquidity risk.

	LESS THAN 6 MONTHS \$000	6-12 MONTHS \$000	1-2 YEARS \$000	2-5 YEARS \$000	TOTAL \$000	CARRYING AMOUNT \$000
<b>31 MARCH 2016</b>						
<b>Financial assets</b>						
Cash	14,659	-	-	-	14,659	14,659
Trade and other receivables	23,705	-	-	-	23,705	23,705
Derivatives	569	-	-	-	569	569
<b>Financial liabilities</b>						
Trade and other payables	(32,775)	-	-	-	(32,775)	(32,775)
Borrowings	(7,599)	(7,599)	(15,198)	(371,474)	(401,870)	(369,370)
Derivatives	(1,399)	(1,399)	(2,798)	(538)	(6,134)	(7,290)
Net maturity	(2,840)	(8,998)	(17,996)	(372,012)	(401,846)	(370,502)
<b>31 MARCH 2015</b>						
<b>Financial assets</b>						
Cash	12,285	-	-	-	12,285	12,285
Trade and other receivables	29,855	-	-	-	29,855	29,855
Derivatives	-	-	-	-	-	-
<b>Financial liabilities</b>						
Trade and other payables	(34,205)	-	-	-	(34,205)	(34,205)
Borrowings	(8,477)	(8,466)	(16,877)	(388,492)	(422,312)	(369,440)
Derivatives	(2,628)	(2,034)	(2,173)	(2,962)	(9,797)	(12,957)
Net maturity	(3,170)	(10,500)	(19,050)	(391,454)	(424,174)	(374,462)

## Notes to the Consolidated Financial Statements (continued)

### E Unrecognised Items

Provides information about items not recognised in the financial statements that could potentially have a significant impact on the Company's financial position and performance

### E1 Commitments

	31 MAR 2016 \$000	31 MAR 2015 \$000
Future minimum lease payments under non-cancellable operating leases for land and buildings are as follows:		
Not later than one year	3,406	4,315
Later than one year but not later than five years	5,470	7,656
Later than five years	3,055	2,997
Total leased land and buildings	11,931	14,968
Future minimum lease payments for motor vehicles under finance leases and hire purchase are as follows:		
Within one year	2,171	3,356
After one year but not more than five years	2,552	1,652
Total minimum lease payments	4,723	5,008
Future minimum payments under equipment finance together with the present value of the net minimum lease payments are as follows:		
Within one year	2,444	4,894
Later than one year but not later than five years	3,553	2,302
Later than 5 years	-	-
Total equipment finance	5,997	7,196

### Other commitments

We have entered into forward purchase contracts for \$9,951,000 worth of grain commodities as at 31 March 2016 (31 March 2015: \$16,598,000). The contracts are expected to be settled within 12 months from balance date.

We have entered into forward purchase contracts for \$64,816,000 worth of cattle as at 31 March 2016 (31 March 2015: \$8,451,000). The contracts are expected to be settled within 12 months from balance date.

### E2 Contingencies

At 31 March 2016 there are a number of native title claims over some of our cattle properties. Negotiations are continuing with stakeholders to resolve these claims. We are not aware of any native title rights that may be found to co-exist with our rights and as such we do not expect any impact on the business to result from native title claims.

## Notes to the Consolidated Financial Statements (continued)

### F Other

Provides information about items not recognised in the financial statements that could potentially have significant impact on the Company's financial position and performance.

### F1 Property, plant and equipment at cost

<b>31 MAR 2016</b>	<b>PASTORAL PLANT AND EQUIPMENT \$000</b>	<b>INDUSTRIAL PLANT AND EQUIPMENT \$000</b>	<b>INDUSTRIAL PROPERTY AND IMPROVEMENTS \$000</b>	<b>TOTAL \$000</b>
Opening balance	30,957	26,370	79,970	137,297
Additions	1,016	3,415	1,820	6,251
Disposals	(1,281)	(28)	-	(1,309)
Depreciation	(8,622)	(4,119)	(2,814)	(15,555)
<b>Closing balance</b>	<b>22,070</b>	<b>25,638</b>	<b>78,976</b>	<b>126,684</b>
Cost	83,581	31,892	82,608	198,081
Accumulated depreciation	(61,511)	(6,254)	(3,632)	(71,397)

<b>31 MAR 2015</b>	<b>PASTORAL PLANT AND EQUIPMENT \$000</b>	<b>INDUSTRIAL PLANT AND EQUIPMENT \$000</b>	<b>INDUSTRIAL PROPERTY AND IMPROVEMENTS \$000</b>	<b>TOTAL \$000</b>
Opening balance	31,296	133	1,887	33,316
Transfers from WIP <sup>1</sup>	-	19,193	40,634	59,827
Additions	8,977	9,022	38,875	56,874
Disposals	(510)	(99)	(699)	(1,308)
Depreciation	(8,806)	(1,879)	(727)	(11,412)
<b>Closing balance</b>	<b>30,957</b>	<b>26,370</b>	<b>79,970</b>	<b>137,297</b>
Cost	86,774	28,509	80,788	196,071
Accumulated depreciation	(55,817)	(2,139)	(818)	(58,774)

<sup>1</sup>Reflects the transfer of capital WIP into property, plant and equipment categories upon commissioning the Livingstone Beef processing facility in October 2014.

## Notes to the Consolidated Financial Statements (continued)

### F2 Tax

<i>The major components of tax expense are:</i>	<b>31 MAR 2016</b> <b>\$000</b>	<b>31 MAR 2015</b> <b>\$000</b>
<b>Income statement</b>		
<i>Current incometax</i>		
Current income tax charge/(benefit)	(207)	(2,570)
<i>Deferred incometax</i>		
Relating to origination and reversal of temporary differences	29,429	6,266
Under/(over) provision in prior years	53	(1,263)
Income tax expense/(benefit) in the income statement	29,275	2,433
<b>Statement of changes in equity</b>		
<i>Deferred income tax</i>		
Net gain/(loss) on cash flow hedges	1,815	(2,651)
Other	-	7
Net gain on revaluation of land and buildings	22,158	4,752
Income tax (benefit)/expense reported in equity	23,973	2,108
<b>Tax reconciliation</b>		
Accounting profit/(loss) before tax	97,082	12,056
At the statutory income tax rate of 30%	29,125	3,617
Net taxable gain on disposal of property	-	-
Research and development offsets	(26)	5
Other items (net)	176	(1,189)
Income tax expense/(benefit) in the income statement	29,275	2,433
<b>Deferred income tax in the balance sheet relates to:</b>		
<i>Deferred tax liabilities</i>		
Accelerated depreciation for tax purposes	(119)	(156)
Revaluations of land and buildings to fair value	(56,280)	(32,543)
Revaluations of trading stock for tax purposes	(30,139)	(1,633)
Other	(1,177)	(2,390)
Offsetting deferred tax asset	7,282	9,538
	(80,433)	(27,184)
<i>Deferred tax assets</i>		
Accruals and other	475	103
Capitalised expenses accelerated for book purposes	1,811	2,411
Interest rate swaps	2,187	3,909
Cash flow hedges	542	726
Leave entitlements	1,188	1,150
Franking deficit tax	1,012	1,012
Individually insignificant balances	67	227
Total deferred tax asset (offset against deferred tax liability)	7,282	9,538
<b>Deferred income tax in the income statement relates to:</b>		
Revaluations of trading stock for tax purposes	28,660	11,021
Other	(1,431)	(2,045)
Accruals and other	(271)	(2,913)
Capitalised expenses accelerated for book purposes	618	2,335
Change in fair value of property, plant and equipment	1,854	(1,764)
Individually insignificant balances	(1)	(368)
Total deferred tax expense/(benefit)	29,429	6,266



## Notes to the Consolidated Financial Statements (continued)

### F3 Other earnings disclosures

	31 MAR 2016 \$00	31 MAR 2015 \$000
Other income	4,352	3,796
Cropping income	5,829	8,664
Total other income	10,181	12,460
Interest expense	18,387	17,691
Other finance costs	2,429	3,102
Total finance costs	20,816	20,793
Remuneration and on-costs	43,568	36,401
Superannuation and post-employment benefits	3,581	3,011
Other employment benefits	3,567	3,607
Share-based payments expense	92	177
Total employee expenses	50,808	43,196
Other earnings information:		
Minimum lease payments – operating leases	7,756	8,578
Commodity and foreign currency expense/(benefit)	(948)	1,096

### F4 Reserves

	ASSET REVALUATION RESERVE \$000	CAPITAL PROFITS RESERVE \$000	CASH FLOW HEDGE RESERVE \$000	EMPLOYEE EQUITY BENEFITS RESERVE \$000	TOTAL \$000
<b>At 1 April 2014</b>	217,680	84,762	(2,164)	5,584	305,862
Revaluation of land and buildings	15,843	-	-	-	15,843
Tax effect on revaluation of land and buildings	(4,753)	-	-	-	(4,753)
Net movement in cash flow hedges	-	-	(6,834)	-	(6,834)
Issue of performance rights from share-based payment reserve	-	-	-	(234)	(234)
Share based payment	-	-	-	170	170
<b>At 31 March 2015</b>	228,770	84,762	(8,998)	5,520	310,054
<b>At 1 April 2015</b>	228,770	84,762	(8,998)	5,520	310,054
Revaluation of land and buildings	73,861	-	-	-	73,861
Tax effect on revaluation of land and buildings	(22,158)	-	-	-	(22,158)
Net movement in cash flow hedges	-	-	4,236	-	4,236
Issue of performance rights from share-based payment reserve	-	-	-	-	-
Share based payment	-	-	-	92	92
<b>At 31 March 2016</b>	280,473	84,762	(4,762)	5,612	366,085

The asset revaluation reserve is used to record increments and decrements in the fair value of property and improvements to the extent that they offset one another. The reserve can only be used to pay dividends in limited circumstances.

The capital profits reserve is used to accumulate realised capital profits. The reserve can be used to pay dividends.

The cash flow hedge reserve is used to record the portion of movements in fair value of a hedging instrument in a cash flow hedge that is recognised in other comprehensive income.

The employee equity benefits reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration. Refer to note F6 for further details of these plans.

## Notes to the Consolidated Financial Statements (continued)

### F5 Related parties

	31 MAR 2016	31 MAR 2015
<b>Compensation for key management personnel</b>	<b>\$000</b>	<b>\$000</b>
Short-term employee benefits	2,558	2,512
Post-employment benefits	190	162
Share-based payment	58	41
Termination benefits	-	522
Long-term benefits	5	21
Total compensation	2,811	3,258

### Transactions with other related parties

In a prior financial year 160 subordinated BBSW plus 0.15% (subject to a 3% p.a. floor) convertible notes with a face value of \$500,000 each were issued to AA Trust, which is ultimately controlled by Mr Joseph Lewis who is a shareholder through his controlled entity and who has significant influence over the parent entity. The notes expire on 30 September 2023 and can be redeemed at the fifth anniversary of the issue date and annually thereafter. The note holder is entitled to convert the notes in ordinary shares from 1 September 2014 until 15 days prior to maturity at \$1.15 per AACo share, with no price payable on conversion. The number of underlying ordinary shares per convertible note is 434,783 or 69,565,280 for the 160 convertible notes on issue. The convertible notes carry one vote per convertible note.

The interest paid during the year amounts to \$2,633,000 (31 March 2015: \$2,633,000).

**F6 Share-based payments**

The share-based payment plans are described below. During 2016, expense arising from equity settled share-based payment transactions was \$92,000 (31 March 2015: \$170,000).

**Executive Option Plan (EOP)**

The Company has one Executive Option Plan (EOP) for the granting of non-transferable options to the Managing Director/ Chief Executive Officer, senior executives and middle management with more than twelve months' service at the grant date. There will be no further grants under this Plan, including none for 2015 and 2016.

**Performance rights plan (PRP)**

During 2011 we introduced a performance rights plan. The purpose of the plan is to assist in the reward, retention and motivation of Executive Directors, Employees, and any other person determined by the Board in its sole and absolute discretion and, attract new employees and/or officers to the Company. The performance rights have a nil exercise price. Vesting of the performance rights is dependent on the satisfaction of a service vesting condition and/or a performance condition. Any performance rights which fail to meet the service condition on the vesting date will lapse immediately. Performance rights issued are subject to: external performance conditions (TSR outperformance of S&P/ASX Small Ordinaries Accumulates Index; ASX Code:XSOA); internal performance conditions (EPS performance based on compound % growth rates over 3 financial years following issue of the performance rights); and termination/change of control provisions. Once the performance rights have vested, they are automatically exercised and shares in AACo issued to either the AACo Employee Share Scheme Trust (EST) or acquired on-market by the EST Trustee on behalf of the participant.

**Equity settled awards outstanding:**

The table below shows the number (No.) and weighted average exercise prices (WAEP) of options and performance rights outstanding. There have been no cancellations or modifications to any of the plans during the twelve months to 31 March 2016 and 31 March 2015.

<b>31 March 2016</b>	<b>EOP No.</b>	<b>EOP WAEP \$</b>	<b>PRP No.</b>
Outstanding at the beginning of the period	590,625	2.64	448,150
Granted during the period	-	-	-
Forfeited during the period	-	-	(145,987)
Exercised during the period	-	-	(111,510)
Outstanding at the end of the period	590,625	2.64	190,653
Exercisable at the end of the period	590,625		-
Weighted average remaining contractual life (days)	832		310
Weighted average fair value at grant date	-		1.24
Range of exercise prices (\$)	2.04-3.22		-
<b>31 March 2015</b>	<b>EOP No.</b>	<b>EOP WAEP \$</b>	<b>PRP No.</b>
Outstanding at the beginning of the period	940,625	2.21	565,190
Granted during the period	-	-	277,494
Forfeited during the period	-	-	(214,217)
Exercised during the period	(350,000)	1.34	(180,317)
Outstanding at the end of the period	590,625	2.64	448,150
Exercisable at the end of the period	590,625		111,510
Weighted average remaining contractual life (days)	1,196		331
Weighted average fair value at grant date	-		1.24
Range of exercise prices (\$)	2.04-3.22		-

## Notes to the Consolidated Financial Statements (continued)

### F7 Controlled entities

The consolidated financial statements include the following controlled entities:

NAME OF ENTITY	NOTES	COUNTRY OF INCORPORATION	31 MAR 2016 % OF SHARES HELD	31 MAR 2015 % OF SHARES HELD
<b>Parent entity</b>				
Australian Agricultural Company Limited	(a)	Australia		
<b>Controlled entities</b>				
A. A. Company Pty Ltd	(a)	Australia	100	100
Austcattle Holdings Pty Ltd	(a)	Australia	100	100
A. A. & P. Joint Holdings Pty Ltd	(a)	Australia	100	100
Shillong Pty Ltd	(a)	Australia	100	100
James McLeish Estates Pty Limited	(a)	Australia	100	100
Wondoola Pty Ltd	(a)	Australia	100	100
Waxahachie Pty Ltd	(a)	Australia	100	100
Naroo Pastoral Company Pty Limited	(a)	Australia	100	100
AACo Nominees Pty Limited	(a)	Australia	100	100
ChefsPartner Pty Ltd	(a)	Australia	100	100
Polkinghorne Stores Pty Limited		Australia	100	100
Northern Australian Beef Limited	(a)	Australia	100	100
AACo Risk Management Pty Ltd		Australia	100	100

a) These companies have entered into a deed of cross guarantee dated 22 November 2006 (amended 1 April 2015) with Australian Agricultural Company Limited which provides that all parties to the deed will guarantee to each creditor payment in full of any debt of each company participating in the deed on winding-up of that company. As a result of a Class Order issued by the Australian Securities and Investments Commission, these companies are relieved from the requirement to prepare financial statements. The Consolidated Income Statement and consolidated Statement of Financial Position of all entities included in the class order "closed Group" are set out in (b).

b) Financial information for class order Closed Group.

	31 MAR 2016 \$000	31 MAR 2015 \$000
<b>Current Assets</b>		
Cash	14,659	12,285
Trade and other receivables	23,705	29,805
Inventories and consumables	34,116	36,803
Livestock	235,053	200,077
Derivatives	569	-
Other assets	1,799	1,566
<b>Total Current Assets</b>	<b>309,901</b>	<b>280,536</b>
<b>Non-Current Assets</b>		
Livestock	328,195	265,109
Property, plant and equipment	741,784	668,396
Intangible assets	3,239	-
Investment – at cost	-	50
Intercompany receivable	3,342	3,342
<b>Total Non-Current Assets</b>	<b>1,076,560</b>	<b>936,897</b>
<b>Total Assets</b>	<b>1,386,461</b>	<b>1,217,433</b>

## Notes to the Consolidated Financial Statements (continued)

	31 MAR 2016 \$000	31 MAR 2015 \$000
<b>Current Liabilities</b>		
Trade and other payables	32,775	34,205
Provisions	3,715	3,370
Borrowings	4,176	4,538
Derivatives	8,892	15,519
<b>Total Current Liabilities</b>	49,558	57,632
<b>Non-Current Liabilities</b>		
Provisions	1,798	2,075
Borrowings	365,194	364,902
Deferred tax liabilities	80,433	27,184
<b>Total Non-Current Liabilities</b>	447,425	394,161
<b>Total Liabilities</b>	496,983	451,793
<b>Net Assets</b>	889,478	765,640
<b>Equity</b>		
Contributed equity	461,213	461,213
Reserves	366,085	310,054
Retained earnings	62,180	(5,627)
<b>Total Equity</b>	889,478	765,640
<b>Income Statement of the Closed Group:</b>		
	31 MAR 2016 \$000	31 MAR 2015 \$000
<b>Revenue</b>		
Meat sales	428,272	267,622
Cattle sales	61,084	70,546
	489,356	338,168
Cattle fair value adjustments	274,578	209,900
	763,934	548,068
Cost of meat sold	(335,145)	(238,764)
Deemed cost of cattle sold	(61,084)	(70,546)
Cattle expenses	(128,614)	(98,451)
<b>Gross operating margin</b>	239,091	140,307
Other income	10,181	12,460
<b>Expenses</b>		
Administration and other non-station operating costs	(26,995)	(25,793)
Other operating costs	(30,356)	(29,110)
Employee expenses	(50,808)	(43,196)
Lease and property related costs	(8,946)	(9,721)
Depreciation and amortisation	(20,450)	(15,710)
Change in fair value of property	6,181	3,612
<b>Profit before finance costs and income tax expense</b>	117,898	32,849
Net finance costs	(20,816)	(20,793)
<b>Profit before income tax</b>	97,082	12,056
Income tax expense	(29,275)	(2,433)
<b>Net profit after tax</b>	67,807	9,623

## Notes to the Consolidated Financial Statements (continued)

### F8 Parent entity

	31 MAR 2016 \$000	31 MAR 2015 \$000
Current assets	2,410	351
Non-current assets	828,192	842,768
Total assets	830,602	843,119
Current liabilities	12,874	17,205
Non-current liabilities	439,858	384,419
Total liabilities	452,732	401,624
Net assets	377,870	441,495
Contributed equity	461,213	461,213
Reserves <sup>1</sup>	78,243	91,963
Accumulated losses	(161,586)	(111,681)
Total equity	377,870	441,495
(Loss) of the parent entity	(49,905)	(22,905)
Total comprehensive loss of the parent entity	(63,625)	(94,647)

<sup>1</sup>The Company has reallocated the tax effect on revaluation of land and buildings to the parent entity for the years ended 31 March 2016 and 31 March 2015.

Australian Agricultural Company Ltd and the wholly owned entities listed in F7 are parties to a deed of cross guarantee as described in F7. The nature of the deed of cross guarantee is such that each Company which is party to the deed guarantees, to each creditor, payment in full of any debt in accordance with the deed of cross guarantee. No deficiency of net assets existed for the Company as at 31 March 2016. No liability was recognised by Australian Agricultural Company Ltd in relation to these guarantees, as the fair value of the guarantees is immaterial.

The accounting policies of the parent entity, which have been applied in determining the financial information shown above, are the same as those applied in the consolidated financial statements except for investments in subsidiaries are accounted for at cost in the financial statements of Australian Agricultural Company Limited.

### F9 Auditors' remuneration

KPMG was appointed lead auditor at the AGM on 16 July 2015. Ernst & Young was the lead auditor for the period ended 31 March 2015.

	31 MAR 2016 \$000 KPMG	31 MAR 2015 \$000 Ernst & Young
Remuneration received, or due and receivable, by the lead auditor of the parent entity for:		
An audit or review of the financial report of the entity and any other entity in the consolidated Group	356,500	377,905
Total	356,500	377,905

## Notes to the Consolidated Financial Statements (continued)

### G Policy Disclosures

Provides information on the Company's accounting policies not captured in earlier notes, as well as other compliance information.

### G1 Corporate information

Australian Agricultural Company Limited is a company limited by shares, incorporated and domiciled in Australia. The Company's shares are publicly traded on the Australian Securities Exchange (ASX).

The consolidated financial statements of Australian Agricultural Company Limited (AACo, the Company or parent Company) for the year ended 31 March 2016 were authorised for issue in accordance with a resolution of the Directors on 25 May 2016.

We recommend the financial statements be considered together with any public announcements made by the Company during the year ended 31 March 2016 in accordance with the Company's continuous disclosure obligations arising under the *Corporations Act 2001* and ASX listing rules.

The nature of the operations and principal activities of Australian Agricultural Company Limited are described in the Directors' Report.

### G2 Basis of preparation

The financial statements are general purpose financial statements, prepared by a for-profit entity, in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

#### (a) Terminology used in the financial statements

In these financial statements, any references to we, us, our, AACo, the Company and consolidated, all refer to Australian Agricultural Company Limited and the entities it controlled at the financial year end or from time to time during the financial year. Any references to subsidiaries or controlled entities in these financial statements refer to those entities that are controlled and consolidated by Australian Agricultural Company Limited.

#### (b) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for land and buildings (with the exception of industrial land), livestock and derivative financial instruments, which have been measured at fair value. Under the historical cost basis, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances, at the amounts of cash expected to be paid to satisfy the liability in the normal course of business.

#### (c) Compliance with IFRS

The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### (d) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant notes.

#### (e) Changes to presentation – classification of expenses, income and asset revaluation reserve

Throughout the period to 31 March 2016, prior period comparatives have been reclassified to conform with current year presentation. None of the reclassification are considered material.

#### (f) Rounding

All dollar amounts in the financial statements (except where indicated) have been rounded to the nearest thousand dollars (\$'000) for presentation. This has been done in accordance with Australian Securities and Investments Commission (ASIC) Class Order 98/100, dated 10 July 1998, issued under section 341(1) of the *Corporations Act 2001*. AACo is an entity to which this class order applies.

### G3 Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### (a) New accounting standards and interpretations

##### (i) Changes in accounting policy and disclosures

We have adopted new and amended Australian Accounting Standards and AASB Interpretations as of 1 April 2015. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Company.

##### (ii) Accounting Standards and Interpretations issued but not yet effective

There are a number of Standards and Interpretations that will be mandatory in future reporting periods. We have not elected to early adopt these Standards and Interpretations. We are yet to quantify the effect on the reported financial position or performance of the Company.

The Standards and Interpretations that may have a material impact on the Company are:

- > AASB 9 Financial Instruments  
AASB 9 introduces changes in the classification and measurement of financial assets and financial liabilities, including a new expected credit loss model for impairment. The standard also introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. This standard becomes mandatory for the Company's 31 March 2019 financial statements.
- > AASB 15 Revenue from Contracts with Customers  
The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The model features a contract based five-step analysis of transactions to determine whether, how much and when revenue is recognised. This standard becomes mandatory for the Company's 31 March 2018 financial statements.
- > AASB 16 Leases  
AASB 16 eliminates the classification of leases as either 'operating' or 'finance'. There is now a single lessee model, which requires a lessee to recognise on statements of financial positions assets and liabilities for leases with terms of more than 12 months unless the underlying asset is of low value. This standard becomes mandatory for the Company's 31 March 2020 financial statements.

#### (b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Australian Agricultural Company Limited, and its subsidiaries (as outlined in note F8) as at 31 March each year or from time to time during the year. All intra-group balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are all those entities which we control as a result of us being exposed, or have rights, to variable returns from our involvement with the subsidiary and we have the ability to affect those returns through our power over the subsidiary. Such control generally accompanies a shareholding of more than one-half of the subsidiaries voting rights. We currently hold 100% of the voting rights of all our subsidiaries.

We consolidate subsidiaries from the date on which control commences and up until the date on which there is a loss of control.

We account for the acquisition of our subsidiaries using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values. Any excess of the fair value of consideration over our interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

#### (c) Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires us to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. We continually evaluate our judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. We base our judgements and estimates on historical experience and on other various factors we believe are reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

We have identified the following accounting policies for which significant judgements, estimates and assumptions have been made:

- > Fair value determination of land and buildings (with the exception of industrial land and buildings) refer note A4;
- > Fair value determination of livestock, refer note A3;
- > Fair value determination of financial liability and embedded derivative component of the convertible note issued on 16 October 2013 refer note C1 and C2 respectively; and
- > Impairment of non-financial and financial assets.

Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.



### (d) Foreign currency translation

#### (i) Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency of Australian Agricultural Company Limited and all its subsidiaries.

#### (ii) Transactions and balances

Transactions in foreign currencies are converted into Australian dollars by applying the exchange rates applicable at the date of the transactions.

Amounts payable and receivable in foreign currencies are converted into Australian dollars at the exchange rate ruling at the reporting date.

All differences arising on settlement or translation of amounts payable and receivable in foreign currencies are taken to the statement of profit and loss.

### (e) Cash

Cash in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash is as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the Statement of Financial Position.

### (f) Trade and other receivables

Trade and other receivables are considered financial assets. They are recognised initially at the fair value of the amounts to be received and are subsequently measured at amortised cost using the effective interest method, less an allowance for doubtful debts. These financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and we have transferred substantially all the risks and rewards of ownership.

We review the collectability of trade receivables on an ongoing basis at the Company level. Individual debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is recognised to reduce the carrying amount of trade receivables when there is objective evidence that we will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts significantly overdue are considered indicators that the trade receivable may not be recoverable. The amount of the allowance for doubtful debts is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The allowance for doubtful debts is recognised in the income statement within administration costs. When a trade receivable for which an allowance for doubtful debts had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against administration costs.

### (g) Inventories and consumables

Inventories and consumables held for use in our operations are valued at the lower of cost and net realisable value. Cost is determined on the average cost basis and comprises the cost of purchase including transport cost.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The quality of inventories is taken into account in the assessment of net realisable value.

### (h) Derivative financial instruments and hedge accounting

We use derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge our foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- (a) Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.
- (b) Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, we formally designate and document the hedge relationship to which we wish to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how we will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated. Hedges that meet the strict criteria for hedge accounting are accounted for as described below:

### Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement in other operating expenses.

We utilise interest rate swaps to hedge our exposure to cash flow movements in loan movements. See note C2 for more details.

We use forward currency contracts as hedges of our exposure to foreign currency risk in forecasted transactions and firm commitments. The ineffective portion relating to foreign currency contracts is recognised in finance costs and the ineffective portion relating to commodity contracts is recognised in other operating income. Refer to Note C2 for more details.

Amounts recognised as other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

### (i) Plant and equipment

#### (i) Recognition and measurement

Refer to A4 for the accounting policy note for plant and equipment at fair value. Plant and equipment and industrial land and buildings are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. Directly attributable costs for the acquisition and construction of an asset are capitalised if the relevant recognition criteria are met. All other repairs and maintenance are recognised in the income statement as incurred.

We review and adjust, if appropriate, the residual values, useful lives and amortisation methods of all property, plant and equipment at the end of each financial year.

#### (ii) Depreciation

Depreciation is calculated on a straight line basis over the estimated useful life of the asset as follows:

PROPERTY, PLANT AND EQUIPMENT	AVERAGE USEFUL LIFE
Land (freehold lease, pastoral/perpetual lease, industrial)	Not depreciated
Buildings	40 years
Fixed improvements	30 years
Owned plant and equipment	3-10 years
Plant and equipment under lease	2-5 years

#### (iii) Impairment

We review the carrying values of plant and equipment and industrial land and buildings for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any indication of impairment exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

#### (iv) Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the period the item is derecognised.

### (j) Leases & agistment

#### (i) AACo as a lessee

We determine whether an arrangement is or contains a lease based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

### *(ii) Pastoral and perpetual property leases*

Pastoral and perpetual property leases have been included in Property, Plant and Equipment (Refer note A4).

### *(iii) Agistment agreements*

Agistment agreements give us the right to use land under a licence agreement to feed and pasture livestock for a fee. Agistment agreements are usually up to 12 months duration and may be renewed for further periods. Agistment rights are classified as operating leases and the costs are expensed as incurred.

### *(iv) Other leases*

Finance leases, which transfer to us substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that we will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

## **(k) Trade and other payables**

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to us prior to the end of the financial year that are unpaid and arise when we become obliged to make future payments in respect of the purchase of these goods and services. Trade payables are unsecured and are usually paid within 30 days of recognition. Other payables are unsecured and are usually paid within 90 days of recognition.

## **(l) Borrowings**

Borrowings are included as non-current liabilities except for those with maturities less than 12 months from the reporting date, which are classified as current liabilities.

We recognise borrowings initially on the trade date, which is the date we become a party to the contractual provisions of the instrument. We derecognise borrowings when our contractual obligations are discharged or cancelled or expire.

All borrowings are initially recognised at fair value plus any transaction costs that are directly attributable to the issue of the instruments and are subsequently measured at amortised cost. Any difference between the final amount paid to discharge the borrowing and the initial borrowing proceeds (including transaction costs) is recognised in the income statement over the borrowing period using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that we incur in connection with the borrowing of funds.

## **(m) Share-based payment transactions**

We provide benefits to our employees (including key management personnel) in the form of share based payments, whereby employees render services in exchange for shares or rights over shares (equity settled transactions).

We recognise an expense for all share based remuneration determined with reference to the fair value at the grant date of the equity instruments. We calculate the fair value using the Black Scholes model or other applicable models. The fair value is charged to the income statement over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Australian Agricultural Company Limited (market conditions).

## **(n) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## **(o) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

### (i) *Livestock and meat sales*

Revenue from the sale of livestock and meat is recognised when:

- > there has been a transfer of risks and rewards to the customer (through the execution of a sales agreement at the time of delivery of the goods to the customer);
- > no further work or processing is required;
- > the quantity and quality of the goods has been determined; and
- > the price is fixed and generally title has passed (for shipped goods this is the bill of lading date).

### (ii) *Interest revenue*

We record interest revenue on an accruals basis. For financial assets, interest revenue is determined by the effective yield on the instrument.

## (p) *Income tax and other taxes*

Our income tax expense represents the sum of current tax and deferred tax.

### (i) *Income tax*

#### **Current tax**

Current tax is calculated on accounting profit after allowing for non-taxable and non-deductible items based on the amount expected to be paid to taxation authorities on taxable profit for the period. Our current tax is calculated using tax rates that have been enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

#### **Deferred tax**

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- > When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- > When the taxable temporary difference is associated with investments in subsidiaries and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- > When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- > When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

## (q) *Earnings per share*

### (i) *Basic earnings per share*

Basic earnings per share is calculated as net profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the period.

### (ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- > the after tax effect of interest and other financing costs associated with dilutive potential ordinary shares that have been recognised as expenses, and
- > the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

## Directors Declaration

In accordance with a resolution of the Directors of the Australian Agricultural Company Limited, we state that:

1. In the opinion of the Directors:
  - a) The financial statements and notes of Australian Agricultural Company Limited for the year ended 31 March 2016 are in accordance with the Corporations Act 2001, including:
    - (i) Giving a true and fair view of its financial position as at 31 March 2016 and of its performance for the year ended on that date.
    - (ii) Complying with Accounting Standards and Corporations Regulations 2001.
  - b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note G2.
  - c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the year to 31 March 2016.
3. In the opinion of the Directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note F7 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'D. McGauchie', with a long horizontal flourish extending to the right.

Donald McGauchie  
Chairman

Brisbane  
25 May 2016



### Independent auditor's report to the members of Australian Agricultural Company Limited

#### *Report on the financial report*

We have audited the accompanying financial report of Australian Agricultural Company Limited (the Company), which comprises the consolidated statement of financial position as at 31 March 2016, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes A1 to G3 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note G2(c), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

#### *Auditor's opinion*

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Group's financial position as at 31 March 2016 and of its performance for the year ended on that date;
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note G2(c).

#### *Report on the remuneration report*

We have audited the Remuneration Report included in pages 15 to 30 of the Directors' Report for the year ended 31 March 2016. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

#### *Auditor's opinion*

In our opinion, the Remuneration Report of Australian Agricultural Company Limited for the year ended 31 March 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Simon Crane  
Partner

Brisbane  
25 May 2016

## ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in the annual report is as follows. The information is current as at 4 May 2016.

### (a) Distribution of equity securities

#### Ordinary share capital

532,936,231 fully paid ordinary shares are held by 10,230 individual Shareholders. All ordinary shares carry one vote per share and carry the rights to dividends. The number of shareholders, by size of holding is:

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS
1 to 1,000	2,050
1,001 to 5,000	3,864
5,001 to 10,000	1,696
10,001 to 100,000	2,424
100,001 and Over	196
<b>TOTAL</b>	<b>10,230</b>

#### Unquoted equity securities

160 subordinated BBSW plus 0.15% (subject to a 3% p.a. floor) convertible notes with a face value of \$500,000 held by AA Trust, which is ultimately controlled by Mr Joseph Lewis. The notes expire on 30 September 2023 and can be redeemed at the fifth anniversary of the issue date and annually thereafter. The note holder is entitled to convert the notes in ordinary shares from 1 September 2014 until 15 days prior to maturity at \$1.15 per AACo share, with no price payable on conversion. The number of underlying ordinary shares per convertible note is 434,783 or 69,565,280 for the 160 convertible notes on issue. The convertible notes carry one vote per convertible note.

### (b) Twenty largest holders of quoted equity securities

The names of the twenty largest holders of quoted shares as shown in the Company's Share Register are:

	NUMBER	PERCENTAGE
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	119,323,440	22.39%
J P MORGAN NOMINEES AUSTRALIA LIMITED	102,587,005	19.25%
NATIONAL NOMINEES LIMITED	52,081,600	9.77%
BRYAN GLINTON <AA A/C>	48,038,034	9.01%
CITICORP NOMINEES PTY LIMITED	25,523,576	4.79%
BNP PARIBAS NOMS PTY LTD <DRP>	8,573,982	1.61%
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	4,939,794	.93%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	3,450,366	.65%
CUSTODIAL SERVICES LIMITED <BENEFICIARIES HOLDING A/C>	3,353,386	.63%
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	3,073,365	.58%
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	2,800,407	.53%
BBRC INTERNATIONAL PTE LTD <THE BB FAM INTERNATIONAL A/C>	2,471,961	.46%
CATHOLIC CHURCH INSURANCE LTD	2,364,801	.44%
BELFORT INVESTMENT ADVISORS LIMITED	2,087,945	.39%
WARBONT NOMINEES PTY LTD <UNPAID ENTREPORT A/C>	2,057,238	.39%
NIZIN HOLDINGS PTY LTD <CHARLES CROPPER A/C>	2,000,000	.38%
BOND STREET CUSTODIANS LTD <MACQUARIE SMALLER CO'S A/C>	1,619,913	.30%
WARBONT NOMINEES PTY LTD <ACCUMULATION ENTREPOT A/C>	1,607,182	.30%
DJERRIWARRH INVESTMENTS LIMITED	1,481,937	.28%
MIRRABOOKA INVESTMENTS LIMITED	1,481,937	.28%

## **ASX Additional Information**

### **(c) Substantial shareholders**

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

<b>ORDINARY SHAREHOLDERS</b>	<b>NUMBER</b>
Bryan Glinton as trustee of The AA Trust	186,427,824
Kaplan Equity Limited	28,284,428

### **(d) Marketable Shares**

The number of security investors holding less than a marketable parcel of 347 securities (\$1.450 on 4 May 2016) is 510 and they hold 39,001 securities.



### Registered Office

#### **Principal Place of Business**

Level 1, Tower A  
Gasworks Plaza  
76 Skyring Terrace  
Newstead QLD 4006

Ph: (07) 3368 4400  
Fax: (07) 3368 4401  
[www.aaco.com.au](http://www.aaco.com.au)

### Share Registry

#### **Link Market Services Limited**

324 Queen Street  
Brisbane QLD 4000

Ph: 1300 554 474  
[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

AACoshares are quoted on the Australian  
Securities Exchange under listing Code AAC.

### Solicitors

#### **King & Wood Mallesons**

Level 33, Waterfront  
Place 1 Eagle Street  
Brisbane QLD 4000

### Bankers

#### **National Australia Bank**

Portfolio Management and Origination  
Institutional Banking  
Level 20, 100 Creek Street  
Brisbane QLD 4000

#### **ANZ**

Consumer and Agribusiness  
Level 20, 111 Eagle Street  
Brisbane QLD 4000

#### **Rabobank**

Darling Park Tower 3  
Level 16, 201 Sussex Street  
Sydney NSW 2000

#### **Commonwealth Bank**

Regional and Agribusiness Banking  
Level 10, 240 Queen Street  
Brisbane QLD 4000

### Auditors

#### **KPMG**

Level 16  
71 Eagle Street  
Brisbane QLD 4000