



Australian Agricultural Company Limited  
ABN 15 010 892 270

## AACo 2017 Half Year Financial Report

ASX Announcement No. 25/2016

23 November 2016

Manager  
ASX Market Announcements  
Australian Securities Exchange

Attached is the Australian Agricultural Company Limited's Half Year Financial Report for the half year ended 30 September 2016.

***Issued by:***  
Bruce Bennett  
General Counsel and Company Secretary



**Australian Agricultural Company Limited**  
ABN 15 010 892 270

**FINANCIAL REPORT**  
**For the half-year ended**  
**30 September 2016**

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the financial report for the year ended 31 March 2016 and any public announcements made by Australian Agricultural Company Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

# DIRECTORS' REPORT

Your Directors present their report on the Group consisting of Australian Agricultural Company Limited and the entities it controlled (AACo) at the end of, or during, the half-year ended 30 September 2016.

## DIRECTORS

The following persons were Directors of Australian Agricultural Company Limited during the half-year and up to the date of this report. Directors were in office for this entire period unless otherwise stated.

Donald McGauchie AO (Non-executive Chairman)

Jason Strong (Managing Director)

Stuart Black AM

David Crombie AM

Tom Keene

Dr Shehan Dissanayake

Anthony Abraham

Neil Reisman

## REVIEW AND RESULTS OF OPERATIONS

### About AAcO

The Australian Agricultural Company (AAcO) is the oldest continuously operating company in Australia with a heritage dating back to 1824.

### AAcO's business activities

AAcO is a vertically integrated branded beef company which 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. 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 610 employees calculated on a full time equivalent basis as at 30 September 2016 (31 March 2016: 592).

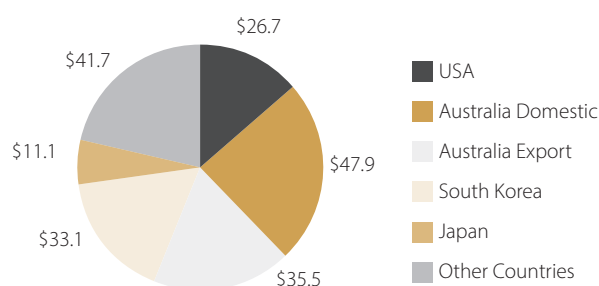
### AAcO's business model

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

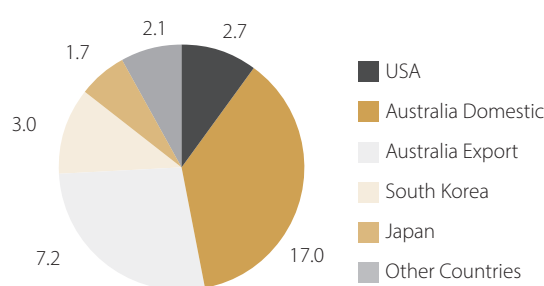
- > Sales and marketing of high quality branded beef into global markets.
- > Production of beef including breeding, backgrounding, feedlotting and processing of cattle; and
- > Ownership, operation and development of pastoral properties;

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 H1FY17.

Sales Revenue (A\$m)



Sales Volume (Million KGs)



## DIRECTORS' REPORT (CONTINUED)

### OPERATING AND FINANCIAL REVIEW (continued)

#### Branded Beef Revenue from External Customers

	6 MONTHS TO 30 SEP 2016 \$'000	6 MONTHS TO 30 SEP 2015 \$'000
Australia Domestic	47,856	40,600
Australia Export <sup>(1)</sup>	35,461	16,900
South Korea	33,125	40,479
USA	26,698	53,702
Japan	11,069	22,841
Other Countries	41,704	49,746
Total Revenue	195,913	224,290

<sup>(1)</sup> Australian dollar denominated sales to Australian based exporters

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.

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 farms located throughout Queensland, New South Wales, and the Northern Territory.

#### 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 superior taste and enjoyment from eating premium quality beef.

AACo is 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

	6 MONTHS TO 30 SEP 2016 \$'000	6 MONTHS TO 30 SEP 2015 \$'000
Meat sales	195,913	224,290
Cattle sales	18,182	36,375
Administration costs	(12,886)	(14,733)
Statutory EBITDA <sup>(1)</sup>	88,268	92,097
Statutory EBIT	78,546	81,980
Net profit after tax	47,878	49,827
Net cash outflow from operating activities	(34,468)	(3,028)
Operating EBITDA <sup>(1)</sup>	13,853	11,478

<sup>(1)</sup> Refer to page 4 and page 5 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.

## DIRECTORS' REPORT (CONTINUED)

### OPERATING AND FINANCIAL REVIEW (continued)

The measure of Operating EBITDA is a key indicator which is used to monitor and manage the Company. It eliminates the volatility 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 \$88.3m in H1FY17 (\$92.1m profit in H1FY16), Operating EBITDA was a profit of \$13.9m (\$11.5m profit in H1FY16). Operating EBITDA does not include unrealised livestock gains, while Statutory EBITDA does include unrealised livestock gains.

#### Statutory Financial Results

	6 MONTHS TO 30 SEP 2016 \$'000	6 MONTHS TO 30 SEP 2015 \$'000	MOVEMENTS \$'000
Meat sales <sup>(1)</sup>	195,913	224,290	(28,377)
Cattle sales <sup>(1)</sup>	18,182	36,375	(18,193)
<b>Sales revenue</b>	<b>214,095</b>	<b>260,665</b>	<b>(46,570)</b>
Cost of meat sold	(166,022)	(183,051)	17,029
Cattle fair value adjustments <sup>(2)</sup>	172,169	179,112	(6,943)
Deemed cost of live cattle sold <sup>(3)</sup>	(18,182)	(36,375)	18,193
Cattle expenses	(57,259)	(76,532)	19,273
<b>Gross operating margin</b>	<b>144,801</b>	<b>143,819</b>	<b>982</b>
Other income	1,990	6,927	(4,937)
<b>Expenses</b>			
Employee expenses	(27,360)	(25,559)	(1,801)
Administration costs	(12,886)	(14,733)	1,847
Other operating costs	(14,835)	(13,980)	(855)
Property costs	(3,442)	(4,377)	935
<b>Operating expenses</b>	<b>(58,523)</b>	<b>(58,649)</b>	<b>126</b>
<b>Earnings from operations – Statutory EBITDA<sup>(4)</sup></b>	<b>88,268</b>	<b>92,097</b>	<b>(3,829)</b>
Depreciation and amortisation	(9,722)	(10,117)	395
<b>Earnings from operations – Statutory EBIT<sup>(4)</sup></b>	<b>78,546</b>	<b>81,980</b>	<b>(3,434)</b>
Finance costs	(10,773)	(10,753)	(20)
<b>Profit before income tax</b>	<b>67,773</b>	<b>71,227</b>	<b>(3,454)</b>
Income tax expense	(19,895)	(21,400)	1,505
<b>Net Profit after tax</b>	<b>47,878</b>	<b>49,827</b>	<b>(1,949)</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 the 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> EBIT (earnings before interest and tax) and EBITDA (earnings before interest, tax, depreciation and amortisation)

## DIRECTORS' REPORT (CONTINUED)

### OPERATING AND FINANCIAL REVIEW (continued)

#### Statutory Financial Results (continued)

Sales revenue has decreased by 18% compared to the previous corresponding period (H1FY16), however gross operating margin improved as sales continue to shift towards higher value branded beef as opposed to live cattle. Branded beef sales now account for over 91% of total revenue (compared to 86% in H1FY16).

The sale of live cattle to third-party producers and processors has reduced (down 18% compared to H1FY16) and, to the extent possible, been integrated into branded beef programs. 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. However this supplemental purchasing activity has been closely managed during the current strong pricing environment for live cattle. Finished cattle purchases of \$14.1m were down \$24.8m compared to the prior period (H1FY16 \$39.0m).

#### Reconciliation of Operating EBITDA to Statutory EBITDA

The tables below reconcile the underlying performance measures of the Group, from Statutory EBITDA to Operating EBITDA. The measures are defined as:

- > Statutory EBITDA per the statutory accounts (refer page 4 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 (LW) basis. The standard cost used is based on 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 30 September 2016 there was a \$74.4m 'unrealised gain' driven by a mixture of inventory changes and market price changes as opposed to at 30 September 2015 where there was a \$80.6m 'unrealised gain'.

	6 MONTHS TO 30 SEP 2016 \$'000	6 MONTHS TO 30 SEP 2015 \$'000
<b>Operating EBITDA</b>	<b>13,853</b>	<b>11,478</b>
Difference between the movement of livestock inventory at standard cost versus market value	74,415	80,619
<b>Statutory EBITDA</b>	<b>88,268</b>	<b>92,097</b>
Depreciation and amortisation	(9,722)	(10,117)
<b>Statutory EBIT</b>	<b>78,546</b>	<b>81,980</b>
Finance costs	(10,773)	(10,753)
Income tax expense	(19,895)	(21,400)
<b>Net profit after tax</b>	<b>47,878</b>	<b>49,827</b>

## DIRECTORS' REPORT (CONTINUED)

### OPERATING AND FINANCIAL REVIEW (continued)

#### Operations

##### Sales and Marketing

In H1FY17, 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 and the contraction of manufacturing beef prices.

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

	6 MONTHS TO 30 SEP 2016	6 MONTHS TO 30 SEP 2015
Wagyu revenue – \$ mil	79.3	86.1
Wagyu kgs sold – mil kg CW <sup>(1)</sup>	5.8	6.7
Wagyu sold – \$/kg CW	13.59	12.88
Shortfed/Other revenue – \$ mil	116.6	138.1
Shortfed/Other kilograms sold – mil kg CW	20.5	19.1
Shortfed/Other sold – \$/kg CW	5.68	7.25
Live cattle sales – mil kg LW <sup>(1)</sup>	6.4	15.1
Live cattle revenue – \$mil	18.2	36.4

##### Processing

The cost of third party toll processing remained largely unchanged.

	6 MONTHS TO 30 SEP 2016	6 MONTHS TO 30 SEP 2015
Third party gross processing cost – \$/kg HSCW <sup>(1)</sup> (6 month average)	1.20	1.21

##### Production

Cost of production fell by 25% as the Company took advantage of strong seasonal conditions, and reduced resourcing costs from its strategic decision to own cattle right through the supply chain.

	6 MONTHS TO 30 SEP 2016	6 MONTHS TO 30 SEP 2015
Kilograms produced – mil Kg LW	40.9	39.8
Cost of production – \$/kg LW	2.09	2.77

##### 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 H1FY17.

The closing herd size of 541.2 thousand head ( 200.2 million Kgs LW) has increased by 14.5 thousand compared to the herd at March 2016 of 526.7 thousand head (191.1 million Kgs LW)

	6 MONTHS TO 30 SEP 2016	6 MONTHS TO 30 SEP 2015
Cattle purchases – mil kg LW	29.5	20.1
Cattle purchases – \$/kg LW	2.64	2.32
Finished cattle purchases – mil kg HSCW	3.1	7.6
Finished cattle purchases – \$/kg HSCW	4.50	5.15

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



## DIRECTORS' REPORT (CONTINUED)

### OPERATING AND FINANCIAL REVIEW (continued)

#### Operations (continued)

##### Corporate Operating Expenses

Corporate operating expenses have increased by \$3.4m compared with the prior corresponding period as the Company continues to invest in innovation and technology and marketing.

##### Cattle fair value adjustments

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

	6 MONTHS TO 30 SEP 2016 \$'000	6 MONTHS TO 30 SEP 2015 \$'000
Unrealised cattle market price movements	76,080	115,957
Other cattle fair value adjustments	96,089	63,155
<b>Total cattle fair value adjustments</b>	<b>172,169</b>	<b>179,112</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 \$76.1m, driven by an increase in cattle market prices.

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

#### 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 frontline staff on the station and overseen by relevant General Managers. Appropriate insurance coverage is maintained in respect of the business, properties and assets.

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

## DIRECTORS' REPORT (CONTINUED)

### OPERATING AND FINANCIAL REVIEW (continued)

#### Capital Structure

The Group's gearing ratio has increased to 30.2% as at 30 September 2016 compared to 29.0% as at 31 March 2016 as the company increased borrowings to purchase cattle inventory, made up mainly of cows that will be processed at Livingstone Beef in the second half of FY17 and Wagyu feeder cattle that will be sold through the premium brands in FY18.

	30 SEP 2016 \$'000	31 MAR 2016 \$'000
Current interest-bearing loans and borrowings	3,645	4,176
Non-current interest-bearing loans and borrowings		
Obligations under finance leases	4,840	5,769
Bank loan facility <sup>(1)</sup>	325,000	285,000
Convertibles notes <sup>(1)</sup>	80,000	80,000
Bank guarantees	1,454	1,454
Cash	(11,335)	(14,659)
<b>Net debt</b>	<b>403,604</b>	<b>361,740</b>
Equity employed	933,597	886,136
<b>Gearing (net debt / net debt + equity)</b>	<b>30.2%</b>	<b>29.0%</b>

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

#### Net Tangible Assets

The Group's net tangible assets per share was \$1.75 as at 30 September 2016, compared to \$1.66 as at 31 March 2016. Net tangible assets of the Company include leasehold land assets.

#### Dividends

There were no dividends declared or paid during the six months to 30 September 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.

## DIRECTORS' REPORT (CONTINUED)

### OPERATING AND FINANCIAL REVIEW (continued)

#### Business Strategies, Likely Developments and Expected Results

The Board reiterates its commitment to increasing shareholder value through incremental improvements to Return on Capital Employed (ROCE) over time.

AACo continues to monitor its existing property portfolio and only buys or sells property when such a move is deemed to be core to its strategy.

#### Significant Events After Balance Date

The Company received a conversion notice in relation to the subordinated convertible notes maturing on 30 September 2023 which were issued by the Company on the terms set out in the AACo Subordinated Notes Deed Poll dated 16 October 2013. The current noteholder, the AA Trust has exercised its right under the Deed Poll to convert 59 of the 160 Convertible Notes into fully paid ordinary shares in the Company. The AA Trust is a revocable discretionary trust established in The Bahamas and ultimately controlled by Mr Joseph Lewis, the principal investor and controller of the Tavistock Group.

The conversion price applicable to the conversion of the 59 Convertible Notes is \$1.1486 per ordinary share. The conversion price has been calculated in accordance with the adjustment mechanisms set out in the Deed Poll. On 27 October 2016 a total of 25,683,440 ordinary shares were issued to the AA Trust on conversion.

# AUDITOR'S INDEPENDENT DECLARATION



## *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 review for the half-year ended 30 September 2016 there have been:

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

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

KPMG

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

Simon Crane  
Partner

Brisbane  
23 November 2016

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

## DIRECTORS' REPORT (CONTINUED)

### ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the Company under ASIC Corporations Instrument 2016/191. The Company is an entity to which the Instrument applies.

Signed in accordance with a resolution of the Directors.



Donald McGauchie AO  
Chairman

Sydney  
23 November 2016

# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Income Statement

For the half-year ended 30 September 2016

	6 MONTHS TO 30 SEP 2016 \$000	6 MONTHS TO 30 SEP 2015 \$000
<b>Revenue</b>		
Meat sales	195,913	224,290
Live cattle sales	18,182	36,375
	214,095	260,665
Cattle fair value adjustments	172,169	179,112
	386,264	439,777
Cost of meat sold	(166,022)	(183,051)
Deemed cost of live cattle sold	(18,182)	(36,375)
Cattle expenses	(57,259)	(76,532)
<b>Gross operating margin</b>	144,801	143,819
Other income	1,990	6,927
<b>Expenses</b>		
Employee expenses	(27,360)	(25,559)
Administration costs	(12,886)	(14,733)
Other operating costs	(14,835)	(13,980)
Property costs	(3,442)	(4,377)
Depreciation and amortisation	(9,722)	(10,117)
<b>Profit before finance costs and income tax expense</b>	78,546	81,980
Finance costs	(10,773)	(10,753)
<b>Profit before income tax</b>	67,773	71,227
Income tax expense	(19,895)	(21,400)
<b>Net profit after tax</b>	47,878	49,827
<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	8.98	9.35
Diluted earnings per share	8.21	9.00

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

## CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### Consolidated Statement of Comprehensive Income

For the half-year ended 30 September 2016

	6 MONTHS TO 30 SEP 2016 \$000	6 MONTHS TO 30 SEP 2015 \$000
<b>Profit for the period</b>	47,878	49,827
<b>Other comprehensive income</b>		
Items not to be reclassified to profit or loss:		
Tax adjustment relating to revalued assets	-	-
Items that may be reclassified subsequently to profit or loss:		
Changes in the fair value of cash flow hedges, net of tax	(445)	683
<b>Other comprehensive income for the period, net of tax</b>	(445)	683
<b>Total comprehensive income for the period, net of tax</b>	47,433	50,510

*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 30 September 2016

	NOTE	30 SEP 2016 \$000	31 MAR 2016 \$000
<b>Current assets</b>			
Cash and cash equivalents		11,335	14,659
Trade and other receivables		26,598	23,705
Inventories and consumables		28,698	34,116
Livestock		331,043	235,053
Derivatives		294	569
Other assets		1,942	1,799
<b>Total current assets</b>		399,910	309,901
<b>Non-current assets</b>			
Livestock		348,087	328,195
Property, plant and equipment	3	739,618	741,784
Intangible assets		2,991	3,239
Other assets		878	-
<b>Total non-current assets</b>		1,091,574	1,073,218
<b>Total assets</b>		1,491,484	1,383,119
<b>Current liabilities</b>			
Trade and other payables		32,055	32,775
Provisions		5,732	3,715
Borrowings	4	3,645	4,176
Derivatives	5	9,392	8,892
<b>Total current liabilities</b>		50,824	49,558
<b>Non-current liabilities</b>			
Provisions		1,524	1,798
Borrowings	4	405,433	365,194
Deferred tax liabilities		100,106	80,433
<b>Total non-current liabilities</b>		507,063	447,425
<b>Total liabilities</b>		557,887	496,983
<b>Net assets</b>		933,597	886,136
<b>Equity</b>			
Contributed equity	6	461,213	461,213
Reserves		365,668	366,085
Retained earnings		106,716	58,838
<b>Total equity</b>		933,597	886,136

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



## CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### Consolidated Statement of Changes in Equity

For the half-year ended 30 September 2016

	NOTE	CONTRIBUTED EQUITY \$000	RESERVES \$000	RETAINED EARNINGS/ (LOSSES) \$000	TOTAL EQUITY \$000
<b>At 1 April 2015</b>		461,213	310,054	(8,969)	762,298
Profit for the period		-	-	49,827	49,827
Other comprehensive income		-	683	-	683
<b>Total comprehensive income for the period</b>		-	683	49,827	50,510
<b>Transactions with owners in their capacity as owners:</b>					
Cost of share-based payment		-	43	-	43
<b>At 30 September 2015</b>		461,213	310,780	40,858	812,851
<b>At 1 April 2016</b>		461,213	366,085	58,838	886,136
Profit for the period		-	-	47,878	47,878
Other comprehensive income		-	(445)	-	(445)
<b>Total comprehensive income for the period</b>		-	(445)	47,878	47,433
<b>Transactions with owners in their capacity as owners:</b>					
Cost of share-based payment		-	28	-	28
<b>At 30 September 2016</b>		461,213	365,668	106,716	933,597

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

## CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### Consolidated Statement of Cash Flows

For the half-year ended 30 September 2016

	NOTE	6 MONTHS TO 30 SEP 2016 \$000	6 MONTHS TO 30 SEP 2015 \$000
<b>Cash flows from operating activities</b>			
Receipts from customers		215,189	260,786
Payments to suppliers, employees and others		(240,142)	(253,387)
Interest received		54	64
Net operating cash inflow before interest and finance costs		(24,899)	7,463
Payment of interest and finance costs		(9,569)	(10,491)
Net cash outflow from operating activities	7	(34,468)	(3,028)
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment and other assets		(8,767)	(9,650)
Proceeds from sale of property, plant and equipment		44	-
Investment in associated entity		(133)	-
Net cash flows outflow from investing activities		(8,856)	(9,650)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings net of transactions costs		40,000	25,000
Repayment of borrowings		-	(10,000)
Net cash inflow from financing activities		40,000	15,000
Net increase/(decrease) in cash		(3,324)	2,322
Cash at the beginning of the period		14,659	12,285
Cash at the end of the period		11,335	14,607

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2016

## 1. Basis of preparation and accounting policies

### (a) 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).

### (b) Basis of preparation

This general purpose condensed financial report for the half-year ended 30 September 2016 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the financial report for the year ended 31 March 2016 and considered together with any public announcements made by Australian Agricultural Company Limited during the half-year ended 30 September 2016 in accordance with the continuous disclosure obligations of the ASX listing rules.

### (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.

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. Management's approach to significant judgements, estimates and assumption is consistent with that applied for the 31 March 2016 consolidated financial report.

#### Livestock

Cattle fair value adjustments disclosed in the financial statements result from the valuation of the livestock herd in accordance with AASB 141 Agriculture which requires livestock to be valued at fair value at all times prior to sale. Livestock are 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 a livestock asset 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 the entity, 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 FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2016 (CONTINUED)

### 1. Basis of preparation and accounting policies (continued)

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

##### 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.

### 2. Segment reporting

#### 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) 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 current 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.

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2016 (CONTINUED)

#### 2. Segment reporting (continued)

##### Measurement of performance (continued)

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

	6 MONTHS TO 30 SEPTEMBER 2016 \$000	6 MONTHS TO 30 SEPTEMBER 2015 \$000
Operating EBITDA	13,853	11,478
Difference between the movement of livestock inventory at standard cost versus market value	74,415	80,619
Statutory EBITDA	88,268	92,097
Depreciation and amortisation	(9,722)	(10,117)
Statutory EBIT	78,546	81,980
Finance costs	(10,773)	(10,753)
Income tax expense	(19,895)	(21,400)
Net profit after tax	47,878	49,827

#### 3. Property, plant and equipment

##### Acquisitions and disposals

During the six months ended 30 September 2016, the Group acquired assets with a cost of \$7.4 million (six months to 30 September 2015: \$10.0 million). The Livingstone Beef facility accounted for \$3.4 million of acquisitions (six months to 30 September 2015: \$2.5million). No property acquisitions were made during the period.

Assets with a net book value of \$0.2 million were disposed of by the Group during the six months ended 30 September 2016 (six months to 30 September 2015: \$1.2 million). No sales of property were made during the period.

During the six-month period ended 30 September 2016, the Directors reviewed the valuation of freehold land, pastoral leases, buildings and improvements recorded at 30 September 2016 and were of the opinion that there were no material changes to the fair value of property disclosed in the financial statements at 31 March 2016 (six months to 30 September 2015: \$nil).

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2016 (CONTINUED)

#### 4. Borrowings

	30 SEP 2016 \$000	31 MAR 2016 \$000
<b>Current</b>		
Obligations under finance leases	3,645	4,176
<b>Non-current</b>		
Obligations under finance leases	4,840	5,769
Secured bank loan facility	324,216	283,939
Convertible notes	76,377	75,486
	<u>405,433</u>	<u>365,194</u>

#### Secured bank loan facility

Facility A loans are repayable on 30 June 2018 and Facility B loans are repayable on 24 March 2018. 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 \$325,000,000 (31 March 2016: \$285,000,000) and is offset in the Statement of Financial Position by a prepaid facility participation fee of \$784,000 (31 March 2016: \$1,061,000).

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:

	30 SEP 2016 \$000	31 MAR 2016 \$000
Total available under Facility A and Facility B	400,000	400,000
Guarantee facility	3,000	3,000
Drawn-down	(326,454)	(286,454)
Unused	<u>76,546</u>	<u>116,546</u>

#### Convertible notes

The Company issued 160 subordinated convertible notes to an existing shareholder for \$80 million on 16 October 2013 (issue date). The notes are unsecured and subordinated to the Company's senior bank debt. The coupon rate is the 6 month BBCW rate plus 0.15% subject to a floor of 3.0% per annum, payable semi-annually in arrears.

The notes expire on 30 September 2023 (maturity) and the note holder may elect to cause redemption at the fifth anniversary of the issue date and annually thereafter. 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 AACo 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.

The convertible notes are offset in the statement of financial position by the value of conversion at inception and prepaid fees of \$3.6 million (31 March 2016: \$4.5 million). No convertible notes were converted or redeemed to 30 September 2016 (31 March 2016: \$nil).

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2016 (CONTINUED)

### 5. Derivative financial instruments

	30 SEP 2016 \$000	31 MAR 2016 \$000
<b>Current assets</b>		
Forward currency contracts	294	569
<b>Current liabilities</b>		
Interest rate swap contracts	7,703	7,290
Embedded interest rate derivative in convertible note	1,689	1,602
	9,392	8,892

#### Fair values

As at 30 September 2016 and 31 March 2016, 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 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.

#### Forward currency exchange contracts

The Group fair values 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. Forward currency contracts have maturities between 0 to 12 months. These contracts are in US dollars. The total notional value of these contracts at 30 September 2016 was AUD \$15.9 million (31 March 2016: AUD \$13.4 million).

#### Interest rate swaps

The Group has entered into interest rate swaps which are economic hedges. The swaps have been designated as effective interest rate swaps and therefore satisfy the accounting standard requirements for hedge accounting. The net fair value profit on interest rate swaps during the six months to 30 September 2016 was \$7.7 million (30 September 2015 was \$9.4 million). The Group fair values these contracts by comparing the contracted rate to the future market rates for contracts with the same length of maturity.

As at 30 September 2016, the notional principal amounts and period of expiry of the interest rate swaps are as follows:

	30 SEP 2016 \$000	31 MAR 2016 \$000
0-1 years	-	-
1-3 years	200,000	200,000

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2016 (CONTINUED)

#### 6. Equity securities issued

##### 30 September 2016

On 1 August 2016 the Company issued 90,742 shares under the AACo performance rights plan for nil consideration.

##### 30 September 2015

On 30 April 2015 the Company issued 111,510 shares under the AACo performance rights plan for nil consideration.

##### Dividends

No dividend was declared or paid during the six months to 30 September 2016 (six months to 30 September 2015: \$nil).



## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2016 (CONTINUED)

#### 7. Cash flow statement reconciliation

##### Reconciliation of net profit after tax to net cash flows from operations

	6 MONTHS TO 30 SEP 2016 \$000	6 MONTHS TO 30 SEP 2015 \$000
Net profit after income tax	47,878	49,827
<i>Adjustments for:</i>		
Depreciation and amortisation	9,722	10,117
Gain on sale of property, plant and equipment	(44)	-
Amortisation of borrowing costs	1,171	980
Non-cash share based payment expense	28	43
(Increment)/decrement in fair value of livestock	(115,881)	(85,171)
<i>Changes in assets and liabilities:</i>		
(Increase)/decrease in inventories	5,418	(778)
(Increase)/decrease in trade and other receivables	(3,014)	(602)
(Increase)/decrease in prepayments and other assets	(618)	(539)
(Decrease)/increase in deferred tax liabilities	19,895	21,585
(Decrease)/increase in trade and other payables	(599)	1,355
(Decrease)/increase in derivatives	(167)	(390)
(Decrease)/increase in provisions	1,743	545
Net outflow from operating activities	(34,468)	(3,028)

#### 8. Commitments

##### Capital commitments

At 30 September 2016 the Company had no contractual commitments for the purchase of capital assets (31 March 2016: nil).

##### Other commitments

We have entered into forward purchase contracts for \$2,732,000 worth of grain commodities as at 30 September 2016 (31 March 2016: \$9,951,000). The contracts are expected to be settled within 12 months from balance date.

We have entered into forward purchase contracts for \$17,565,000 worth of cattle as at 30 September 2016 (31 March 2016: \$64,816,000). The contracts are expected to be settled within 12 months from balance date.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2016 (CONTINUED)

#### 9. Related party disclosures

In a prior financial year, on 16 October 2013 (issue date), 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 Company. The notes expire on 30 September 2023 (maturity) and can be redeemed at the fifth anniversary of the issue date and annually thereafter. The note holder is entitled to convert the notes to 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 6 months to 30 September 2016 amounted to \$1,316,000 (30 September 2015: \$1,316,000).

#### 10. Events after the balance sheet date

The Company received a conversion notice in relation to the subordinated convertible notes maturing on 30 September 2023 issued by the Company on the terms set out in the AACo Subordinated Notes Deed Poll dated 16 October 2013. The current noteholder, the AA Trust (a revocable discretionary trust established in The Bahamas and ultimately controlled by Mr Joseph Lewis, the principal investor and controller of the Tavistock Group), has exercised its right under the Deed Poll to convert 59 of the 160 Convertible Notes into fully paid ordinary shares in the Company.

The conversion price applicable to the conversion of the 59 Convertible Notes is \$1.1486 per ordinary share (which has been calculated in accordance with the adjustment mechanisms set out in the Deed Poll). The number of ordinary shares to be issued on conversion will be approximately 25,683,440 which are expected to be issued on 27 October 2016.

# DIRECTORS' DECLARATION

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

In the opinion of the Directors:

- (a) The condensed consolidated financial statements and notes set out on pages 12 to 24 are in accordance with the *Corporations Act 2001*, including:
  - (i) Giving a true and fair view of the Group's financial position as at 30 September 2016 and its performance for the half-year ended on that date;
  - (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



D. McGauchie AO  
Chairman

Sydney  
23 November 2016

# INDEPENDENT AUDITOR'S REVIEW REPORT



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

We have reviewed the accompanying half-year financial report of Australian Agricultural Company Limited (the Company), which comprises the consolidated statement of financial position as at 30 September 2016, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes 1 to 10 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 half-year end or from time to time during the half-year.

### *Directors' responsibility for the half-year financial report*

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Group's financial position as at 30 September 2016 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As auditor of Australian Agricultural Company Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Independence*

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

### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Australian Agricultural Company Limited is not in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the Group's financial position as at 30 September 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

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

KPMG

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

Simon Crane  
Partner

Brisbane  
23 November 2016

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

# COMPANY INFORMATION

## Company Secretary

Bruce Bennett

## 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)

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

## 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