



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

## **FINANCIAL REPORT 2017**

# DIRECTORS' REPORT

Your Directors submit their report for the year ended 31 March 2017.

## 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 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), Director of James Hardie Industries plc, 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 – resigned August 2016;
- > 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. He has led the ongoing transformation of AACo to a luxury branded beef business.

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 (MLA) where he was Regional Manager Europe with responsibility for Marketing and Business development in the European and Russian markets for the Australian red meat industry. Prior to the MLA appointment in Europe, Mr Strong was Head of New Market Development for Pfizer Animal Genetics, a role that started in sales and operations for bio tech start up Catapult Genetics that included business development and market expansion in Australia, North and South America and Europe.

Mr Strong played a key role in the development and implementation of Australia's meat grading system - Meat Standards Australia. During this time he developed an extensive knowledge of meat retailing through an involvement in high quality Brisbane butcher shops.

Mr Strong is a director of Nucleus Biologics and all AACo subsidiaries. He 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 establishment and development of the Intercollegiate Meat Judging program.

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

# DIRECTORS' REPORT (CONTINUED)

## DIRECTORS (continued)



### **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 and TPI Enterprises Ltd, 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;
- > NetComm Wireless Limited\* – appointed March 2013; and
- > TPI Enterprises Ltd\* – appointed June 2016

\*Denotes current Directorship



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

Mr Crombie was appointed a Director on 5 October 2011. Mr Crombie is a member 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 October 2011; and
- > Barrack Street Investments Limited\* – appointed 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 Chair of the Staff and Remuneration Committee.

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 served as a Director of the following listed companies:

- > Midway Limited\* – appointed August 2008.

\* Denotes current Directorship

## DIRECTORS' REPORT (CONTINUED)

### DIRECTORS (continued)



#### **Dr Shehan Dissanayake Ph.D.**

Dr Shehan Dissanayake was appointed a Director on 27 April 2012 and appointed an Executive Director on 11 April 2017. 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 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 not served as a Director of any other listed company.



#### **Neil Reisman JD**

Mr Reisman was appointed a Director on 10 May 2016. Mr Reisman is a member of the Audit and Risk Management Committee, the Nomination Committee and 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.

### 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.

## DIRECTORS' REPORT (CONTINUED)

### 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 the Company Limited were:

CURRENT DIRECTORS	ORDINARY SHARES	OPTIONS OVER ORDINARY SHARES	PERFORMANCE RIGHTS
D. McGauchie	1,120,774	Nil	Nil
J. Strong	148,587	Nil	30,091
S. Black	40,000	Nil	Nil
D. Crombie	60,000	Nil	Nil
T. Keene	75,000	Nil	Nil
Dr. S Dissanayake	2,025,000	Nil	Nil
Mr A. Abraham	20,000	Nil	Nil
Mr N. Reisman	Nil	Nil	Nil

### DIVIDENDS AND EARNINGS PER SHARE

EARNINGS PER SHARE	31 MAR 2017 CENTS	31 MAR 2016 CENTS
Basic earnings per share	13.2	12.7
Diluted earnings per share	12.5	11.6

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

# DIRECTORS' REPORT (CONTINUED)

## 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 6.4 million 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 549 employees calculated on a full time equivalent basis as at 31 March 2017 (31 March 2016: 592).

### AACo's Business Model

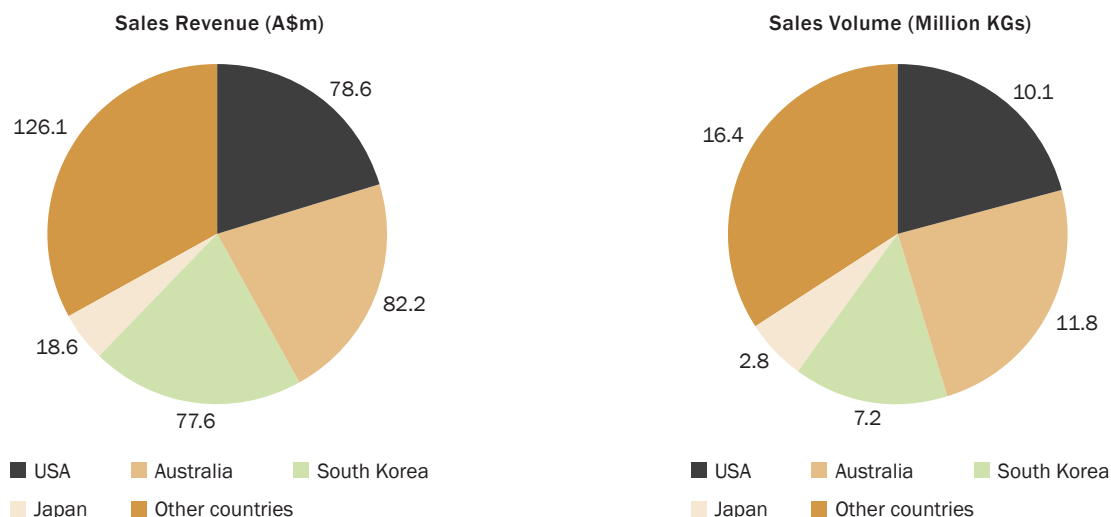
AACo is a fully integrated branded beef business with three principal activities:

- > 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, 7 agisted properties, 2 owned feedlots, a beef processing facility and 2 owned farms, the portfolio operates across Queensland and the Northern Territory.

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 FY17.



BRANDED BEEF REVENUE FROM EXTERNAL CUSTOMERS	31 MAR 2017 \$'000	31 MAR 2016 \$'000	MOVEMENTS %
Australia	82,216	71,234	15%
USA	78,581	117,923	-33%
South Korea	77,578	81,767	-5%
Japan	18,557	43,168	-57%
Other Countries	126,104	114,180	10%
Total Revenue	383,036	428,272	-11%

## DIRECTORS' REPORT (CONTINUED)

### OPERATING AND FINANCIAL REVIEW (continued)

#### Key Financial Indicators Used by Management

	31 MAR 2017 \$'000	31 MAR 2016 \$'000	MOVEMENTS \$'000
Meat sales	383,036	428,272	(45,236)
Cattle sales	63,691	61,084	2,607
Administration costs	(24,769)	(26,995)	2,226
Statutory EBITDA <sup>(1)</sup>	133,216	132,167	1,049
Statutory EBIT	116,469	117,898	(1,429)
Net profit/(loss) after tax	71,586	67,807	3,779
Net cash (outflow)/inflow from operating activities	29,260	21,789	7,471
Operating EBITDA <sup>(1)</sup>	45,027	14,797	30,230

<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 audited 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 \$133.2m in FY17 (\$132.2m in FY16), Operating EBITDA was a profit of \$45.0m (\$14.8m in FY16). Operating EBITDA does not include unrealised livestock gains, while Statutory EBITDA does include unrealised livestock gains.

#### AACo's Reportable Segments

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". This is due to the Company having an integrated supply chain.

# DIRECTORS' REPORT (CONTINUED)

## OPERATING AND FINANCIAL REVIEW (continued)

### Statutory Financial Results

	31 MAR 2017 \$'000	31 MAR 2016 \$'000	MOVEMENTS \$'000
Meat sales <sup>(1)</sup>	383,036	428,272	(45,236)
Cattle sales <sup>(1)</sup>	63,691	61,084	2,607
<b>Sales revenue</b>	<b>446,727</b>	<b>489,356</b>	<b>(42,629)</b>
Cost of meat sold	(341,558)	(335,145)	(6,413)
Cattle fair value adjustments <sup>(2)</sup>	300,026	274,578	25,448
Deemed cost of live cattle sold <sup>(3)</sup>	(63,691)	(61,084)	(2,607)
Cattle expenses	(99,753)	(128,614)	28,861
<b>Gross operating margin</b>	<b>241,751</b>	<b>239,091</b>	<b>2,660</b>
<b>Other income</b>	<b>4,722</b>	<b>10,181</b>	<b>(5,459)</b>
<b>Expenses</b>			
Employee expenses	(53,079)	(50,808)	(2,271)
Administration costs	(24,769)	(26,995)	2,226
Other operating costs	(28,681)	(30,356)	1,675
Property costs	(6,728)	(8,946)	2,218
<b>Operating expenses<sup>(4)</sup></b>	<b>(113,257)</b>	<b>(117,105)</b>	<b>3,848</b>
<b>Earnings from operations – Statutory EBITDA<sup>(5)</sup></b>	<b>133,216</b>	<b>132,167</b>	<b>1,049</b>
Depreciation and amortisation	(19,032)	(20,450)	1,418
Change in fair value of property	2,285	6,181	(3,896)
<b>Earnings from operations – Statutory EBIT<sup>(5)</sup></b>	<b>116,469</b>	<b>117,898</b>	<b>(1,429)</b>
Finance costs	(20,170)	(20,816)	646
<b>Profit before income tax</b>	<b>96,299</b>	<b>97,082</b>	<b>(783)</b>
Income tax expense	(24,713)	(29,275)	(4,562)
<b>Net Profit after tax</b>	<b>71,586</b>	<b>67,807</b>	<b>3,779</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.

<sup>(5)</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)

Meat sales revenue has decreased by 11% compared to the previous corresponding period as the Company focused on higher margin products.

The volume of live cattle sales has reduced by 25% as the Company focuses on holding cattle further down the supply chain to be sold as branded beef.

Where the internal supply of cattle has not been sufficient to meet the demand of beef customers, purchases of 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 \$28.4m were down \$23.4m compared to the prior period (FY16 \$51.8m).

Cattle expenses reduced by 22% in FY17 due to favorable climatic conditions and a reduction in the volume of cattle growing on third party pastures and feedlots.

### 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, and the standard cost used in this calculation is based on a prior year average of production and cost data.

Under the Operating EBITDA methodology, inventory moves onto the balance sheet at a predefined standard cost. Any production or purchasing differences from the standards are recognised as variances in the period and 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 2017 there was a \$88.2m 'unrealised gain' which is the difference between the movement of livestock inventory at standard cost versus market value (31 March 2016: \$117.4m 'unrealised gain').

	31 MAR 2017 \$000	31 MAR 2016 \$000
<b>Operating EBITDA</b>	<b>45,027</b>	<b>14,797</b>
Difference between the movement of livestock inventory at standard cost versus market value	88,189	117,370
<b>Statutory EBITDA</b>	<b>133,216</b>	<b>132,167</b>
Depreciation and Amortisation	(19,032)	(20,450)
Change in fair value of property	2,285	6,181
<b>Statutory EBIT</b>	<b>116,469</b>	<b>117,898</b>
Net finance costs	(20,170)	(20,816)
Income tax expense	(24,713)	(29,275)
<b>Net profit after tax</b>	<b>71,586</b>	<b>67,807</b>

# DIRECTORS' REPORT (CONTINUED)

## OPERATING AND FINANCIAL REVIEW (continued)

### Operations

#### Sourcing

Any shortfall in meeting customer demand is supplemented by purchasing 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 FY17.

	31 MAR 2017	31 MAR 2016
Cattle purchases – mil kg LW <sup>(1)</sup>	39.1	36.8
Cattle purchases – \$/kg LW	3.04	2.74
Finished cattle purchases – mil kg HSCW <sup>(1)</sup>	6.4	9.9
Finished cattle purchases – \$/kg HSCW	4.41	5.30

#### Production

Kilograms produced is a measure of the number of kilograms of live weight grown on cattle owned by the Company during the year. Kilograms produced increased in FY17 as the Company took advantage of strong seasonal conditions.

Cost of production is a measure of the operating costs incurred to produce a kilogram of live weight on cattle owned by the Company during the year. The cost of production decreased by 27% in FY17 as the Company got better control of its supply chain and reduced the volume of cattle growing on third party pastures and feedlots.

	31 MAR 2017	31 MAR 2016
Kilograms produced – mil kg LW	70.5	60.1
Cost of production – \$/kg LW	2.14	2.93

#### Processing

The cost of third party toll processing decreased marginally due to an increase in the average weight of carcasses.

	31 MAR 2017	31 MAR 2016
Third party gross processing cost – \$/kg HSCW (12 month average)	1.18	1.23

#### Sales and Marketing

In FY17, 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.

	31 MAR 2017	31 MAR 2016
Wagyu revenue – \$ mil	175.9	177.4
Wagyu kgs sold – mil kg CW <sup>(1)</sup>	12.5	13.3
Wagyu sold – \$/kg CW	14.10	13.33
Shortfed/Other revenue – \$ mil	208.3	250.9
Shortfed/Other kilograms sold – mil kg CW	35.8	38.1
Shortfed/Other sold – \$/kg CW	5.81	6.58
Live cattle sales – mil kg LW	18.0	22.6
Live cattle revenue – \$mil	63.7	61.1

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

# DIRECTORS' REPORT (CONTINUED)

## OPERATING AND FINANCIAL REVIEW (continued)

### Operations (continued)

#### Operating Expenses

Operating expenses have decreased by \$3.8m compared with the prior corresponding period due to a reduction in administration, property and other operating costs.

#### Cattle fair value adjustments

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

	31 MAR 2017 \$000	31 MAR 2016 \$000
Market value movements	80,824	169,783
Other cattle fair value adjustments	219,202	104,795
<b>Total cattle fair value adjustments</b>	<b>300,026</b>	<b>274,578</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 \$80.8m, 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 \$19.0 million is \$1.4 million lower compared to the prior corresponding period.

The profit and loss impact of the change in fair value of property, plant and equipment relating to an increase in property values amounts to \$2.3 million, compared with \$6.2 million increase in the prior corresponding period.

#### Interest and Finance Costs

Total interest and finance costs decreased marginally to \$20.2 million from \$20.8m in the prior corresponding period due to lower interest rates and the conversion of 59 of the 160 Convertible Notes on issue into fully paid ordinary shares in October 2016.

#### 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.

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 Company's gearing ratio has decreased to 24.4% as at 31 March 2017 compared to 29.0% as at 31 March 2016.

	31 MAR 2017 \$000	31 MAR 2016 \$000
Current interest-bearing loans and borrowings	3,691	4,176
Non-current interest-bearing loans and borrowings:		
Obligations under finance leases	3,704	5,769
Bank loan facility <sup>(4)</sup>	312,000	285,000
Convertibles notes <sup>(4)</sup>	50,500	80,000
Bank guarantees	1,454	1,454
Cash	(42,533)	(14,659)
<b>Net debt</b>	<b>328,816</b>	<b>361,740</b>
Equity employed	1,017,743	886,136
<b>Gearing (net debt / net debt + equity)</b>	<b>24.4%</b>	<b>29.0%</b>

<sup>(4)</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 \$1.82 as at 31 March 2017, compared to \$1.66 as at 31 March 2016. 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 2017, 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 premium branded 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

Dr Shehan Dissanayake was appointed as an Executive Director on 11 April 2017.

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. On 20 April 2017 the Company announced that the current noteholder, the AA Trust had exercised its right under the Deed Poll to convert 65 of the remaining 101 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 65 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 28 April 2017 a total of 28,295,316 ordinary shares were issued to the AA Trust on conversion.

# DIRECTORS' REPORT (CONTINUED)

## 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 2017.
- > 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 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. NABL and AACo complied with the Directions given and provided all information requested by the NT EPA.

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.

# DIRECTORS' REPORT (CONTINUED)

## SHARE OPTIONS

### Unissued Shares

As at the date of this report, there were 677,662 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 under the AACo Subordinated Notes Deed Poll dated 16 October 2013 (Deed Poll). The notes are unsecured and subordinated to the Company's senior bank debt. The notes expire on 30 September 2023 and the noteholder 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 noteholder 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 \$1.1486 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.

The current noteholder is The AA Trust which 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.

During the period, The AA Trust exercised its right under the Deed Poll to convert some of the Convertible Notes into fully paid ordinary shares in the Company. In October 2016, The AA Trust converted 59 of the 160 Convertible Notes into 25,683,440 ordinary shares and in April 2017 the AA Trust converted a further 65 of the Convertible Notes into 28,295,316 ordinary shares. The conversion price applicable at the time of the conversion of the 124 Convertible Notes into fully paid ordinary shares was \$1.1486 per ordinary share. The conversion price was calculated in accordance with the adjustment mechanisms set out in the Deed Poll.

The remaining 36 Convertible Notes are due to mature on 30 September 2023 unless converted or redeemed at an earlier date.

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

During the financial period and since the end of the financial period, there were no options exercised to acquire shares in the Company.

The Company's Performance Rights Plan has been in place since 2011 and 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 performance rights will remain until such time as they are either exercised or the rights lapse.

There were 90,742 performance rights exercised under the AACo Performance Rights Plan during the year to 31 March 2017.

## 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.

# DIRECTORS' REPORT (CONTINUED)

## REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 31 March 2017 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 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

# DIRECTORS' REPORT (CONTINUED)

## 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)	Independent
Mr J. Strong	Managing Director and Chief Executive Officer	Non-Independent
Mr S. Black	Director (non-executive)	Independent
Mr D. Crombie	Director (non-executive)	Independent
Mr T. Keene	Director (non-executive)	Independent
Dr S. Dissanayake	Director (executive)*	Non-Independent
Mr A. Abraham	Director (non-executive)	Independent
Mr N. Reisman (appointed 10 May 2016)	Director (non-executive)	Non-Independent

\*Appointed an Executive Director on 11 April 2017.

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

N/A
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#### (iii) Executives

Mr T. McCormack (appointed 11 April 2016)	Chief Operating Officer
Mr S. Prebble (appointed 18 January 2017)	Acting Chief Financial Officer
Mr B. Bennett	Company Secretary/General Counsel

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

Mr A. Slatter (ceased 17 January 2017)	Chief Financial Officer
Mr A. Bourke (ceased 31 January 2017)	General Manager - People and Culture
Mr C. Levick (ceased 26 April 2016)	General Manager - Sales and Marketing
Mr G. Davis (ceased 24 March 2017)	General Manager - Innovation and Technology

Mr C. Levick ceased employment with the Company on 26 April 2016. Mr A. Slatter ceased employment with the Company on 17 January 2017. Mr A. Bourke ceased employment with the Company on 31 January 2017. Mr G. Davis ceased employment with the Company on 24 March 2017.

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

On 18 January 2017 Mr S. Prebble was appointed Acting Chief Financial Officer.

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



# DIRECTORS' REPORT (CONTINUED)

## 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 whilst being 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 bonus 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 STI actually paid to the executive.

# DIRECTORS' REPORT (CONTINUED)

## REMUNERATION REPORT (AUDITED) (continued)

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

The following table illustrates the structure of the Company's executive remuneration arrangements in 2017:

REMUNERATION COMPONENT	VEHICLE	PURPOSE	LINK TO PERFORMANCE
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 with 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:

	TOTAL FIXED REMUNERATION (TFR) %	SHORT TERM INCENTIVES %	DEA INCENTIVE <sup>(1)</sup> %	TOTAL TARGETED REWARD (TTR) %
MD/CEO	58	29	13	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.

# DIRECTORS' REPORT (CONTINUED)

## REMUNERATION REPORT (AUDITED) (continued)

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

BoardRoom, Crichton Associates and Guerdon 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.

In the year ended 31 March 2017, services provided by BoardRoom, Crichton Associates and Guerdon Associates included employee share scheme (ESS) administration and share based payment valuations, totalling \$21,755 (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, Mr D. McGauchie and Mr T. Keene (Committee Chairman)).

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 14 July 2016 Annual General Meeting ('AGM')*

The Company received 98% of 'for' votes in relation to its remuneration report for the year-ended 31 March 2016. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

# DIRECTORS' REPORT (CONTINUED)

## 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.

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 2017 and 31 March 2016 is detailed in Table 1 on page 25 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 2017, 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 25 to 26).

# DIRECTORS' REPORT (CONTINUED)

## 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 a maximum of 30 to 50% 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.

# DIRECTORS' REPORT (CONTINUED)

## REMUNERATION REPORT (AUDITED) (continued)

### 5. Executive Remuneration Arrangements (continued)

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

FEATURE	DESCRIPTION								
Maximum opportunity	<p><b>Short-term incentives (STI)</b> CEO: 50% of fixed remuneration Other executives: 30-50% of fixed remuneration</p> <p><b>Deferred equity award (DEA)</b> 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><b>Short-term incentives (STI)</b> CEO: 0% of fixed remuneration Other executives: 0% of fixed remuneration</p> <p><b>Deferred equity award (DEA)</b> 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>METRIC</th><th>WEIGHTING</th></tr> <tr> <td>Operating EBITDA</td><td>40%</td></tr> <tr> <td>Operating cash flow</td><td>40%</td></tr> <tr> <td>Individual performance metrics</td><td>20%</td></tr> </table>	METRIC	WEIGHTING	Operating EBITDA	40%	Operating cash flow	40%	Individual performance metrics	20%
METRIC	WEIGHTING								
Operating EBITDA	40%								
Operating cash flow	40%								
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 2017 amounts to \$249,640. The DEA has not yet been offered to the MD/CEO or any other executives in respect of performance during the year to 31 March 2017.

The STI cash bonus for the MD/CEO and any other executives in respect of performance during the year to 31 March 2016 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 2016.

# DIRECTORS' REPORT (CONTINUED)

## 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.

	CEO DESCRIPTION	SENIOR EXECUTIVE DESCRIPTION
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:

	NOTICE PERIOD	PAYMENT IN LIEU OF NOTICE	TREATMENT OF STI ON TERMINATION	TREATMENT OF PERFORMANCE RIGHTS ON TERMINATION
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:

	NOTICE PERIOD	PAYMENT IN LIEU OF NOTICE	TREATMENT OF STI ON TERMINATION	TREATMENT OF PERFORMANCE RIGHTS ON TERMINATION
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

#### FY2017 performance and impact on remuneration

The Company's performance for the 12 months to 31 March 2017 in relation to the metrics for the payment of short term incentives for KMP, was assessed as meeting the Board approved thresholds for Operating EBITDA. As a result, an STI cash bonus of \$249,640 to KMP was approved by the board for payment.

# DIRECTORS' REPORT (CONTINUED)

## REMUNERATION REPORT (AUDITED) (continued)

### 7. Link Between Remuneration and Performance

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

METRICS	IMPACT ON INCENTIVE AWARD
Operating EBITDA	Met target
Operating cash flow	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.

MEASURE	2017	2016	2015	2014	2013 <sup>(1)</sup>
Profit/(loss) for the year attributable to owners (\$000)	71,586	67,807	9,623	(39,898)	(46,477)
Basic earnings per share (cents)	13.2	12.7	1.8	(9.3)	(14.9)
Dividend payments (\$000)	0	0	0	0	0
Dividend payout ratio (%)	0	0	0	0	0
Increase/(decrease) in share price (%)	28%	(19%)	30%	0%	14%
Operating EBITDA (\$000)	45,027	14,797	(3,591)	165	n/a
Operating Cash Flow (\$000)	29,260	21,789	(75,881)	18,451	(18,603)

<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 and is not comparable to subsequent years being seasonally impacted.

#### 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 25 to 26.

	FIXED REMUNERATION		AT RISK – STI - CASH		AT RISK – STI - DEA <sup>(1)</sup>	
	2017	2016	2017	2016	2017	2016
<b>Directors</b>						
J. Strong	83%	96%	15%	0%	2%	4%
Dr S. Dissanayake	100%	-	0%	-	0%	-
<b>Executives</b>						
B. Bennett	83%	92%	13%	0%	4%	8%
T. McCormack	85%	100%	15%	0%	0%	0%
S. Prebble	91%	-	8%	-	1%	-
<b>Former Executives</b>						
A. Slatter	100%	100%	0%	0%	0%	0%
A. Bourke	100%	100%	0%	0%	0%	0%
G. Davis	100%	100%	0%	0%	0%	0%
C. Levick	100%	100%	0%	0%	0%	0%

<sup>(1)</sup> Based on the share based payment expense incurred by the Company in relation to a prior year award.



# DIRECTORS' REPORT (CONTINUED)

## 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 25 to 26), 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.

	CURRENT YEAR STI ENTITLEMENT (CASH BONUS AND DEA)		
	TOTAL OPPORTUNITY (\$)	AWARDED %	FORFEITED %
<b>Directors</b>			
J. Strong	450,000	26%	74%
<b>Executives</b>			
B. Bennett	253,011	20%	80%
T. McCormack <sup>(1)</sup>	274,838	28%	72%
S. Prebble <sup>(1)</sup>	20,651	26%	74%
<b>Former Executives<sup>(1)</sup></b>			
A. Slatter	241,253	0%	100%
A. Bourke	91,430	0%	100%
G. Davis	231,436	0%	100%
C. Levick	22,511	0%	100%

<sup>(1)</sup> The above opportunity has been adjusted for the number of days of employment as an executive 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

	SHORT TERM			POST-EMPLOYMENT	LONG-TERM BENEFIT	TERMINATION	SHARE BASED PAYMENT	TOTAL
	SALARY & FEES	CASH BONUS (UNDERSTI)	NON-MONETARY BENEFITS	SUPERANNUATION	LONG SERVICE LEAVE <sup>(1)</sup>	BENEFITS	SHORT TERM INCENTIVE (DEA) <sup>(2)</sup>	
DIRECTORS	\$	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive Directors</b>								
<b>D. McGauchie</b>								
31/03/2017	189,280	-	-	17,982	-	-	-	207,262
31/03/2016	189,280	-	-	17,982	-	-	-	207,262
<b>S. Black</b>								
31/03/2017	95,304	-	-	9,054	-	-	-	104,358
31/03/2016	95,304	-	-	9,054	-	-	-	104,358
<b>D. Crombie</b>								
31/03/2017	101,975	-	-	9,688	-	-	-	111,663
31/03/2016	110,304	-	-	10,479	-	-	-	120,783
<b>A. Abraham</b>								
31/03/2017	74,003	-	-	7,030	-	-	-	81,033
31/03/2016	73,797	-	-	7,011	-	-	-	80,808
<b>T. Keene</b>								
31/03/2017	108,633	-	-	10,320	-	-	-	118,953
31/03/2016	111,331	-	-	10,576	-	-	-	121,907
<b>N. Reisman<sup>(3)</sup></b>								
31/03/2017	73,518	-	-	-	-	-	-	73,518
31/03/2016	-	-	-	-	-	-	-	-
<b>Dr S. Dissanayake<sup>(4)</sup></b>								
31/03/2017	70,304	-	-	-	-	-	-	70,304
31/03/2016	70,304	-	-	-	-	-	-	70,304
<b>Executive Directors</b>								
<b>J. Strong</b>								
31/03/2017	618,306	118,500	-	31,767	-	-	18,483	787,056
31/03/2016	611,559	-	-	25,192	-	-	31,158	667,909
<b>Total Remuneration: Directors</b>								
31/03/2017	1,331,323	118,500	-	85,841	-	-	18,483	1,554,147
31/03/2016	1,261,879	-	-	80,294	-	-	31,158	1,373,331

<sup>(1)</sup>Long service leave balances are only accrued from 5 years' service onwards.

<sup>(2)</sup>The STI expense amounts to the value expensed by the Company for the period.

<sup>(3)</sup>Mr N. Reisman was appointed as a Non-executive Director on 10 May 2016.

<sup>(4)</sup>Dr S. Dissanayake was appointed as an Executive Director on 11 April 2017.

# DIRECTORS' REPORT (CONTINUED)

## REMUNERATION REPORT (AUDITED) (continued)

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

#### Remuneration of Key Management Personnel

**Table 2: Other Key Management Personnel (KMP)**

	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	BENEFITS	SHORT TERM INCENTIVE (DEA) <sup>(7)</sup>	
EXECUTIVES	\$	\$	\$	\$	\$	\$	\$	\$
<b>Other KMP</b>								
<b>A. Slatter<sup>(1)</sup></b>								
31/03/2017	293,497	-	3,500	46,041	-	181,735	-	524,773
31/03/2016	377,394	30,000	4,200	37,133	-	-	-	448,727
<b>B. Bennett</b>								
31/03/2017	291,275	49,996	-	19,539	5,477	-	16,135	382,422
31/03/2016	271,527	-	-	18,783	5,063	-	27,200	322,573
<b>A. Bourke<sup>(2)</sup></b>								
31/03/2017	193,584	1,000	-	12,436	-	147,809	-	354,829
31/03/2016	225,740	-	-	20,822	-	-	-	246,562
<b>G. Davis<sup>(3)</sup></b>								
31/03/2017	284,413	-	-	27,069	-	-	-	311,482
31/03/2016	166,220	-	-	16,414	-	-	-	182,634
<b>C. Levick<sup>(4)</sup></b>								
31/03/2017	46,688	-	-	19,119	-	172,500	-	238,307
31/03/2016	180,196	-	-	16,514	-	-	-	196,710
<b>T. McCormack<sup>(5)</sup></b>								
31/03/2017	370,032	75,692	4,200	39,751	-	-	-	489,675
31/03/2016	-	-	-	-	-	-	-	-
<b>S. Prebble<sup>(6)</sup></b>								
31/03/2017	60,936	5,452	-	4,642	-	-	911	71,941
31/03/2016	-	-	-	-	-	-	-	-
<b>Total Remuneration: Other KMP</b>								
31/03/2017	1,540,425	132,140	7,700	168,597	5,477	502,044	17,046	2,373,429
31/03/2016	1,221,077	30,000	4,200	109,666	5,063	-	27,200	1,397,206

<sup>(1)</sup>Mr A. Slatter ceased employment with the Company on 17 January 2017.

<sup>(2)</sup>Mr A. Bourke ceased employment with the Company on 31 January 2017.

<sup>(3)</sup>Mr G. Davis ceased employment with the Company on 24 March 2017.

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

<sup>(5)</sup>Mr T. McCormack was appointed Chief Operating Officer on 11 April 2016. The remuneration disclosed above is from the date of appointment as KMP.

<sup>(6)</sup>Mr S. Prebble was appointed Acting Chief Financial Officer on 18 January 2017. The remuneration disclosed above is from the date of appointment as KMP.

<sup>(7)</sup>The STI expense amounts to the value expensed by the Company for the period.

# DIRECTORS' REPORT (CONTINUED)

## REMUNERATION REPORT (AUDITED) (continued)

### 8. Equity Instrument Disclosures

No performance rights or options were granted during the twelve months to 31 March 2017 (31 March 2016: nil).

No shares were issued to key management personnel during the year-ended 31 March 2017 (31 March 2016: nil).

#### *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.

GRANT DATE	VESTING DATE	GRANT DATE VALUE
31 July 2014	31 July 2016	\$1.2405
31 July 2014	31 July 2017	\$1.2408

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:

2017	YEAR GRANTED	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>
		NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	\$
		Executives							
J. Strong	2015	30,091	-	30,091	-	-	-	-	-
	2015	30,091	-	-	-	30,091	30,091	-	49,951
A. Slatter	-	-	-	-	-	-	-	-	-
B. Bennett	2015	26,269	-	26,269	-	-	-	-	-
	2015	26,268	-	-	-	26,268	26,268	-	43,605
A. Bourke	-	-	-	-	-	-	-	-	-
G. Davis	-	-	-	-	-	-	-	-	-
C. Levick	-	-	-	-	-	-	-	-	-
T. McCormack	-	-	-	-	-	-	-	-	-
S. Prebble	-	-	-	-	-	-	-	-	-

<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 2017. 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
2017	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER
<b>Directors</b>					
D. McGauchie	1,020,774	-	-	100,000	1,120,774
S. Black	40,000	-	-	-	40,000
D. Crombie	60,000	-	-	-	60,000
T. Keene	50,000	-	-	25,000	75,000
A. Abraham	-	-	-	20,000	20,000
Dr S. Dissanayake	1,275,000	-	-	750,000	2,025,000
N. Reisman	-	-	-	-	-
J. Strong	40,587	-	30,091	77,909	148,587
<b>Executives</b>					
B. Bennett	44,605	-	26,269	-	70,874
T. McCormack	-	-	-	-	-
S. Prebble	-	-	-	-	-
<b>Former Executives</b>					
A. Slatter	-	-	-	-	-
A. Bourke	-	-	-	-	-
G. Davis	-	-	-	-	-
C. Levick	-	-	-	-	-
<b>Total</b>	<b>2,530,966</b>	<b>-</b>	<b>56,360</b>	<b>972,909</b>	<b>3,560,235</b>

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.

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

There are no loans outstanding with the key management personnel at 31 March 2017 (31 March 2016: nil), nor have there been any transactions that would be considered a loan throughout the period.

### 10. 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 2017 (31 March 2016: 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:

	DIRECTORS' MEETINGS		AUDIT & RISK MANAGEMENT COMMITTEE		STAFF & REMUNERATION COMMITTEE		NOMINATION COMMITTEE	
	A	B	A	B	A	B	A	B
Mr. D McGauchie	8	8	*	8	6	6	2	2
Mr. J Strong <sup>¶</sup>	8	8	*	*	*	*	*	*
Mr. T Keene	8	8	9	9	6	6	2	2
Mr. D Crombie	8	8	9	8	6	5	2	2
Mr. S Black	8	8	9	9	*	6	2	2
Dr S. Dissanayake	8	7	*	6	*	5	2	2
Mr. A Abraham	8	8	*	8	*	6	2	2
Mr. N Reisman	6	6	8	8	*	5	2	2

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

Amounts contained in this report and in the financial report have been rounded to the nearest thousand dollars for presentation where noted (\$000). This has been completed under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which this legislative instrument applies.

## DIRECTORS' REPORT (CONTINUED)

### 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 2017 there have been:

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

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  
10 May 2017

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)

### NON AUDIT SERVICES

The following non-audit services were provided by the entity's lead auditor, KPMG. 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 2001*. 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:

	31 MAR 2017	31 MAR 2016
	\$	\$
Advisory services	9,500	-
Tax related advice	-	-
	9,500	-

Signed in accordance with a resolution of the Directors



Donald McGauchie  
Chairman

Brisbane  
10 May 2017



# 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: <ul style="list-style-type: none"> <li>&gt; the respective roles and responsibilities of its Board and management; and</li> <li>&gt; those matters expressly reserved to the Board and those delegated to management.</li> </ul>	Yes	Page 37	ASX CGC 1.1
1.2 A listed entity should: <ul style="list-style-type: none"> <li>&gt; undertake appropriate checks before appointing a person, or putting forward to shareholders a candidate for election, as a Director; and</li> <li>&gt; provide shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director.</li> </ul>	Yes	Page 37	ASX CGC 1.2
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 38	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 37	ASX CGC 1.4
1.5 A listed entity should: <ul style="list-style-type: none"> <li>&gt; 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;</li> <li>&gt; disclose that policy or a summary of it;</li> <li>&gt; 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:</li> <li>&gt; 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</li> <li>&gt; 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.</li> </ul>	Yes	Page 40 to 41	ASX CGC 1.5
1.6 A listed entity should: <ul style="list-style-type: none"> <li>&gt; have and disclose a process for periodically evaluating the performance of the Board, its committees and individual Directors; and</li> <li>&gt; disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</li> </ul>	Yes	Page 40	ASX CGC 1.6
1.7 A listed entity should: <ul style="list-style-type: none"> <li>&gt; have and disclose a process for periodically evaluating the performance of its senior executives;</li> <li>&gt; disclose, in relation to each reporting period, whether a performance evaluation was undertaken in this reporting period in accordance with that process.</li> </ul>	Yes	Refer to Remuneration Report	ASX CGC 1.7

# 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:	Yes	Page 41 and AACo website	ASX CGC 2.1
<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> </ul>			
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 employs 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>			
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 39	ASX CGC 2.2
2.3 A listed entity should disclose:	Yes	Page 38	ASX CGC 2.3
<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>			
2.4 A majority of the Board of a listed entity should be independent Directors.	Yes	Page 38	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 38	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 40	ASX CGC 2.6
<b>Principle 3 – Act ethically and responsibly</b>			
3.1 A listed entity should:	Yes	Page 40 and AACo website	ASX CGC 3.1
<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>			

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

RECOMMENDATION	COMPLY YES / NO	REFERENCE / EXPLANATION	ASX LISTING RULE (LR) /CGC RECOMMENDATION
<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:</li> <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> 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>	Yes	Page 41 and AACo website	ASX CGC 4.1
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 43	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 44	ASX CGC 4.3
<b>Principle 5 – Make timely and balanced disclosure</b>			
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 44 and AACo website	ASX CGC 5.1
<b>Principle 6 – Respect the rights of shareholders</b>			
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 44	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 44	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 44	ASX CGC 6.4

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

RECOMMENDATION	COMPLY YES / NO	REFERENCE / EXPLANATION	ASX LISTING RULE (LR) /CGC RECOMMENDATION
<b>Principle 7 – Recognise and manage risk</b>			
<p>7.1 The Board of a listed entity should:</p> <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> </ul> <p>and disclose:</p> <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>	Yes	Page 41 and AACo website	ASX CGC 7.1
<p>7.2 The Board or a committee of the Board should:</p> <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 42	ASX CGC 7.2
<p>7.3 A listed entity should disclose:</p> <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 42	ASX CGC 7.3
<p>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.</p>	Yes	Page 42 to 43	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> </ul> <p>and disclose:</p> <ul style="list-style-type: none"> <li>&gt; the charter of the committee;</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> </ul> <p>and disclose:</p> <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>	Yes	Page 44 and AACo website	ASX CGC 8.1
<p>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.</p>	Yes	Page 43	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 44	ASX CGC 8.3

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The Company's corporate governance practices were in place throughout the 12 months to 31 March 2017, 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-media/corporate-governance/](http://www.aaco.com.au/investors-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.

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## 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;
- > Has any interest, 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 40.95% shareholder of the Company and was appointed an Executive Director on 11 April 2017.
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 40.95% 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.

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## Structure of the Board (continued)

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	7 years 1 month
Mr T. Keene	5 years 7 months
Mr S. Black	5 years 7 months
Mr D. Crombie	5 years 7 months
Dr S. Dissanayake	5 years 1 month
Mr J. Strong	3 years 4 months
Mr A. Abraham	2 years 8 months
Mr N. Reisman	1 year 1 month

For further biographical details, refer to pages 1 to 2 inclusive.

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 and therefore 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:

SKILL/KNOWLEDGE/EXPERIENCE	OUT OF 8 DIRECTORS
<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



# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## 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 2016 financial year. In FY2017, 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. In addition, strict non-trading windows must be adhered to in the lead up to results being released.

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 August 2016.	> Female Staff Engagement surveyed at 62% positive.
Enhance female employee skills (including management and supervisory skills) to support promotion to more senior roles.	Participation in AACo Management Capability Program 2017.	> All female employees in management/supervisory roles completed the AACo Management Capability Program during 2017 to support development and management skills.
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.	> 100% of Graduate intake 2017 are female. > Female graduates featured widely in internal and external media
Review Internal policies to identify opportunities to improve female employee retention.	Review of relevant policy and procedures conducted annually.	> Changes to improve parental leave entitlement and flexible working arrangements implemented.

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## Diversity Policy (continued)

In 2016 a female was appointed to a senior role of Station Manager for the first time, and five additional female employees were appointed to senior supervisory roles within the Pastoral, Farming and Feedlot business units. During the year no appointments were made which would alter the gender diversity within senior management.

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 increased from 33% female at end of March 2016 to 34% female end of March 2017.

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 N. Reisman\*  
Mr A. Abraham

\*Dr S. Dissanayake was appointed as an executive director on 11 April 2017 and retired from his appointment on the Nomination Committee on that date.

\*Appointed May 2016.

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  
Mr N. Reisman\*  
\*Appointed May 2016.

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 1 to 2 of the Directors' Report.

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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.

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.

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 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 online Enterprise Risk software application, providing a central repository for AACo risks.

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 2017 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.

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:

- > Supply Chain Management
- > Workplace Health and Safety
- > Information Technology Strategy
- > Reputation and Brand
- > Unsustainable Operations
- > Environmental
- > Market access
- > Representation and Reporting
- > Skills
- > Cyber Security

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## Audit and Risk Management Committee (continued)

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.

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.

AACo contracts out the internal audit function, with the audit plan approved by the Audit and Risk Management Committee.

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

## CEO and CFO Certification

Prior to the Board's approval of the Company's 2017 financial report, the MD/CEO and acting 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 acting 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 MD'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.

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## 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 2017 were:

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

The members of the Staff and Remuneration Committee and their qualifications are shown in this annual report on pages 1 to 2 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.

# CONSOLIDATED FINANCIAL STATEMENTS

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# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Income Statement

For the year ended 31 March 2017

	NOTE	31 MAR 2017 \$000	31 MAR 2016 \$000
<b>Revenue</b>			
Meat sales		383,036	428,272
Live cattle sales		63,691	61,084
		446,727	489,356
Cattle fair value adjustments	A3	300,026	274,578
		746,753	763,934
Cost of meat sold		(341,558)	(335,145)
Deemed cost of live cattle sold		(63,691)	(61,084)
Cattle expenses		(99,753)	(128,614)
<b>Gross operating margin</b>	A2	241,751	239,091
Other income	F3	4,722	10,181
<b>Expenses</b>			
Employee expenses	F3	(53,079)	(50,808)
Administration costs		(24,769)	(26,995)
Other operating costs		(28,681)	(30,356)
Property costs		(6,728)	(8,946)
Depreciation and amortisation		(19,032)	(20,450)
Change in fair value of property	A4	2,285	6,181
<b>Profit before finance costs and income tax expense</b>		116,469	117,898
Finance costs	F3	(20,170)	(20,816)
<b>Profit before income tax</b>		96,299	97,082
Income tax expense	F2	(24,713)	(29,275)
<b>Net profit after tax</b>		71,586	67,807
<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	13.2	12.7
Diluted earnings per share	C5	12.5	11.6

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 year ended 31 March 2017

	NOTE	31 MAR 2017 \$000	31 MAR 2016 \$000
Profit for the year		71,586	67,807
<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	29,421	51,703
Items to be reclassified subsequently to profit or loss:			
Changes in the fair value of cash flow hedges, net of tax	F4	1,058	4,236
<b>Other comprehensive income for the year, net of tax</b>		<b>30,479</b>	<b>55,939</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>102,065</b>	<b>123,746</b>

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 2017

	NOTE	31 MAR 2017 \$000	31 MAR 2016 \$000
<b>Current Assets</b>			
Cash	B1	42,533	14,659
Trade and other receivables	B4	14,091	23,705
Inventories and consumables	B3	28,574	34,116
Livestock	A3	269,850	235,053
Derivatives	C2	73	569
Other assets		1,406	1,799
<b>Total Current Assets</b>		<b>356,527</b>	<b>309,901</b>
<b>Non-Current Assets</b>			
Livestock	A3	392,632	328,195
Property, plant and equipment	A4	792,373	741,784
Intangible assets		3,024	3,239
Investments		1,099	-
<b>Total Non-Current Assets</b>		<b>1,189,128</b>	<b>1,073,218</b>
<b>Total Assets</b>		<b>1,545,655</b>	<b>1,383,119</b>
<b>Current Liabilities</b>			
Trade and other payables	B5	31,242	32,775
Provisions		3,727	3,715
Borrowings	C1	3,691	4,176
Derivatives	C2	6,186	8,892
<b>Total Current Liabilities</b>		<b>44,846</b>	<b>49,558</b>
<b>Non-Current Liabilities</b>			
Provisions		1,977	1,798
Borrowings	C1	362,918	365,194
Deferred tax liabilities	F2	118,171	80,433
<b>Total Non-Current Liabilities</b>		<b>483,066</b>	<b>447,425</b>
<b>Total Liabilities</b>		<b>527,912</b>	<b>496,983</b>
<b>Net Assets</b>		<b>1,017,743</b>	<b>886,136</b>
<b>Equity</b>			
Contributed equity	C3	490,713	461,213
Reserves	F4	396,606	366,085
Retained earnings/(losses)		130,424	58,838
<b>Total Equity</b>		<b>1,017,743</b>	<b>886,136</b>

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 year ended 31 March 2017

	CONTRIBUTED EQUITY (NOTE C3) \$000	RESERVES (NOTE F4) \$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 year	-	-	67,807	67,807
Other comprehensive income	-	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 reserve	-	-	-	-
Cost of share-based payment	-	92	-	92
<b>At 31 March 2016</b>	461,213	366,085	58,838	886,136
<b>At 1 April 2016</b>	461,213	366,085	58,838	886,136
Profit for the year	-	-	71,586	71,586
Other comprehensive income	-	30,479	-	30,479
<b>Total comprehensive income for the year</b>	-	30,479	71,586	102,065
<b>Transactions with owners in their capacity as owners:</b>				
Issue of share capital, net of transaction costs	29,500	-	-	29,500
Issue of performance rights from share-based payment reserve	-	-	-	-
Cost of share-based payment	-	42	-	42
<b>At 31 March 2017</b>	490,713	396,606	130,424	1,017,743

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 year ended 31 March 2017

	NOTE	31 MAR 2017 \$000	31 MAR 2016 \$000
<b>Cash flows from operating activities</b>			
Receipts from customers		499,860	508,535
Payments to suppliers, employees and others		(452,189)	(468,084)
Interest received		100	155
Net operating cash inflow before interest and finance costs		47,771	40,606
Payment of interest and finance costs		(18,511)	(18,817)
Net cash inflow from operating activities	B2	29,260	21,789
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment and other assets		(28,644)	(19,595)
Proceeds from sale of property, plant and equipment		258	180
Net cash outflows from investing activities		(28,386)	(19,415)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings net of transaction costs		52,000	25,000
Repayment of borrowings		(25,000)	(25,000)
Net cash inflow from financing activities		27,000	-
Net increase in cash		27,874	2,374
Cash at the beginning of the year		14,659	12,285
Cash at the end of the year	B1	42,533	14,659

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

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE TWELVE MONTHS TO 31 MARCH 2017

### A FINANCIAL PERFORMANCE

#### A1 Significant matters

##### Safety

In FY17, AACo continued the improvement on previous years' health and safety performance with a further 43% reduction in the Lost Time Injury Frequency Rate. This was largely driven by an ongoing focus on operational leadership and commitment to building a strong safety culture. Reduction of injuries in key risk areas continued due to improved risk management and skill development at a property level.

##### Property Revaluation

The Company recorded an \$44 million increase in the value of the Company's property portfolio following an independent valuation by CBRE during FY17. The revaluation reflects increased activity and sale prices for recent property sales in Northern Australia.

##### Herd Profile

The closing herd size increased by 4.2% or 22.2 thousand head (5.5 mil kg LW) in FY17. 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 \$80.8 million driven by an increase in cattle market prices.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS TO 31 MARCH 2017 (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 2017 \$000	31 MAR 2016 \$000
<b>Meat sales</b>			
Sales		383,036	428,272
Cost of meat sold <sup>(1)</sup>		(341,558)	(335,145)
Operating margin		41,478	93,127
<b>Live cattle sales</b>			
Sales		63,691	61,084
Cost of cattle sold <sup>(2)</sup>		(63,691)	(61,084)
Operating margin		-	-
<b>Cattle production</b>			
Fair value adjustments	A3	300,026	274,578
Cattle expenses		(61,768)	(81,371)
Feedlot expenses		(37,985)	(47,243)
Operating margin		200,273	145,964
<b>Gross operating margin</b>		<b>241,751</b>	<b>239,091</b>

<sup>(1)</sup>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.

<sup>(2)</sup>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

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### A3 Livestock

CATTLE AT FAIR VALUE	31 MAR 2017 \$000	31 MAR 2017 HEAD	31 MAR 2016 \$000	31 MAR 2016 HEAD
Current	269,850	163,872	235,053	177,412
Non-current	392,632	384,976	328,195	349,204
Total livestock	662,482	548,848	563,248	526,616

LIVESTOCK MOVEMENT	31 MAR 2017 \$000	31 MAR 2016 \$000
Opening carrying amount	563,248	465,186
Changes in fair value	300,026	274,578
Purchases of livestock	118,825	100,307
External sale of livestock less selling expenses	(61,604)	(58,098)
Transfers for meat sales	(258,013)	(218,725)
Closing carrying amount	662,482	563,248

CATTLE FAIR VALUE ADJUSTMENTS	31 MAR 2017 \$000	31 MAR 2016 \$000
Market value movements <sup>(1)</sup>	80,824	169,783
Biological transformation <sup>(2)</sup>	137,840	70,793
Natural increase	100,878	64,204
Attrition	(19,459)	(29,979)
Other	(57)	(223)
Total cattle fair value adjustments	300,026	274,578

<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

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### A3 Livestock (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 2017 \$000	31 MAR 2017 HEAD	31 MAR 2016 \$000	31 MAR 2016 HEAD
Level 1	None	-	-	-	-
Level 2	Commercial & stud breeding herd	348,302	284,016	291,740	265,618
Level 2	Trading cattle	142,227	117,368	137,125	130,254
Level 2	Unbranded calves	40,826	99,898	33,862	82,559
Level 3	Feedlot cattle	131,127	47,566	100,521	48,185
		662,482	548,848	563,248	526,616
Average value per head			\$1,207		\$1,070

TYPE	LEVEL	VALUATION METHOD
Commercial & stud breeding herd	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.
Trading cattle	2	Relevant market indicators used include Roma store cattle prices, MLA over-the hook market indicators, 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.
Unbranded calves	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.
Feedlot cattle	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 0.7kgs to 2.1kgs. 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

FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

## A3 Livestock (continued)

UNBRANDED CALVES	31 MAR 17 \$000	31 MAR 17 HEAD	31 MAR 16 \$000	31 MAR 16 HEAD
Calf accrual opening	33,862	82,559	24,201	85,873
Movement <sup>(1)</sup>	7,112	17,339	(934)	(3,314)
Fair value adjustments	(148)	-	10,595	-
Calf accrual closing	40,826	99,898	33,862	82,559
Average value per head		\$409		\$410

<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 17 \$000	31 MAR 17 HEAD	31 MAR 16 \$000	31 MAR 16 HEAD
Opening values	100,521	48,185	85,552	54,396
Inductions	149,219	82,143	130,342	99,115
Sales	(181,416)	(82,238)	(168,119)	(104,644)
Attritions & rations	(1,205)	(524)	(1,041)	(682)
Fair value adjustments recognised	64,007	-	53,787	-
Closing values	131,126	47,566	100,521	48,185
Average value per head		\$2,757		\$2,086

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

## A4 Property

PROPERTY PLANT AND EQUIPMENT	NOTE	31 MAR 2017 \$000	31 MAR 2016 \$000
Property and improvements at fair value		667,860	615,100
Industrial property and improvements at cost	F1	77,516	78,976
Industrial plant and equipment at cost	F1	21,079	25,638
Pastoral plant and equipment at cost	F1	19,483	22,070
Industrial capital work in progress	F1	6,435	-
Total property, plant and equipment		792,373	741,784

### Property and improvements at fair value

	FREEHOLD LAND \$000	PASTORAL LEASES \$000	BUILDINGS AND IMPROVEMENTS \$000	TOTAL \$000
<b>31 MAR 2017</b>				
Opening balance	65,519	457,116	92,465	615,100
Additions	-	-	13,137	13,137
Disposals	-	-	(2)	(2)
Net revaluation increment/(decrement) recognised in the Income Statement	18	2,267	-	2,285
Net revaluation increment/(decrement) recognised in asset revaluation reserve	3,866	38,164	-	42,030
Depreciation	-	-	(4,690)	(4,690)
Closing balance	69,403	497,547	100,910	667,860

	FREEHOLD LAND \$000	PASTORAL LEASES \$000	BUILDINGS AND IMPROVEMENTS \$000	TOTAL \$000
<b>31 MAR 2016</b>				
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

### 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

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### A4 Property (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 2017 \$000	31 MAR 2016 \$000	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	31 MAR 2017 RANGE/ (AVERAGE)	31 MAR 2016 RANGE/ (AVERAGE)
580,000	530,700	Direct Comparison (Productive Unit Approach)	Number of adult equivalents	5,350 - 80,200 24,332	5,350 - 80,200 24,332
			Dollar per adult equivalents	\$1,000 - \$4,000 \$1,384	\$900 - \$3,748 \$1,283
			Number of properties	17	17
56,860	30,000	Direct Comparison (Hectare Rate Approach)	Dollar per hectare	\$951 \$951	\$920 \$920
			Number of properties	1	1
31,000	54,400	Direct Comparison (Hectare Rate and Standard Cattle Unit Approach)	Dollar per hectare	\$3,127 - \$3,413 \$3,270	\$3,127 - \$3,210 \$3,169
			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 2017.

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 during FY16 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. Dr Steve Petty confirmed the property carrying capacity's remain unchanged in FY17.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### A4 Property (continued)

#### 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 2017 \$000	31 MAR 2016 \$000
Deemed cost	322,319	313,286
Accumulated depreciation	(47,544)	(43,101)
Net carrying amount	274,775	270,185

#### 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.

Our systems of internal reporting to key management personnel are such that there is only one reportable segment as defined in AASB 8, being the production and sale of beef. 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

BRANDED BEEF REVENUE FROM EXTERNAL CUSTOMERS	31 MAR 2017 \$000	31 MAR 2016 \$000
Australia	82,216	71,234
USA	78,581	117,923
South Korea	77,578	81,767
Japan	18,557	43,168
Other countries	126,104	114,180
Total revenue per income statement	383,036	428,272

Revenues of \$104,649,000 (31 March 2016: \$118,442,000) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### A5 Segment Information (continued)

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

	31 MAR 2017 \$000	31 MAR 2016 \$000
Operating EBITDA	45,027	14,797
Difference between the movement of livestock inventory at standard cost versus market value	88,189	117,370
Statutory EBITDA	133,216	132,167
Depreciation and amortisation	(19,032)	(20,450)
Change in fair value of property	2,285	6,181
Statutory EBIT	116,469	117,898
Finance costs	(20,170)	(20,816)
Income tax expense	(24,713)	(29,275)
Net profit after tax	71,586	67,807

### B WORKING CAPITAL

#### B1 Net working capital

	NOTE	31 MAR 2017 \$000	31 MAR 2016 \$000
Cash		42,533	14,659
Inventory and consumables	B3	28,574	34,116
Trade and other receivables	B4	14,091	23,705
Trade and other payables	B5	(31,242)	(32,775)
Net working capital		53,956	39,705

#### B2 Cash

RECONCILIATION OF NET PROFIT/(LOSS) AFTER TAX TO NET CASH FLOWS FROM OPERATIONS	31 MAR 2017 \$000	31 MAR 2016 \$000
Net profit after income tax	71,586	67,807
Adjustments for:		
Depreciation and amortisation	19,032	20,450
Change in fair value of property	(2,285)	(6,181)
Loss/(gain) on sale of property, plant and equipment	(258)	120
Amortisation of borrowing costs	2,288	2,190
Non-cash share based payment expense	208	92
(Increment)/decrement in fair value of livestock	(99,234)	(98,062)
Changes in assets and liabilities:		
(Increase)/decrease in inventories	5,542	2,687
(Increase)/decrease in trade and other receivables	9,614	6,150
(Increase)/decrease in prepayments and other assets	(392)	(233)
(Decrease)/increase in deferred tax liabilities	25,200	29,277
(Decrease)/increase in trade and other payables	(1,533)	(1,430)
(Decrease)/increase in derivatives	(699)	(1,146)
(Decrease)/increase in provisions	191	68
Net cash (outflow)/ inflow from operating activities	29,260	21,789
<b>Non-cash financing and investing activities</b>		
Acquisition of assets by means of finance leases	1,645	2,884

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

## B3 Inventory and consumables

	31 MAR 2017 \$000	31 MAR 2016 \$000
Meat inventory	16,032	21,400
Feedlot commodities	2,470	2,638
Bulk stores	8,161	6,279
Other inventory	1,911	3,799
	28,574	34,116

## B4 Trade and other receivables

	31 MAR 2017 \$000	31 MAR 2016 \$000
Trade receivables	13,129	20,898
Provision for impairment of receivables	-	(144)
	13,129	20,754
Other receivables	962	2,951
	14,091	23,705

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 2017 \$000	31 MAR 2016 \$000
Current or past due under 30 days	13,112	19,699
Past due 31-60 days	-	561
Past due 61+ days	17	638
Total trade receivables	13,129	20,898

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 2017 \$000	31 MAR 2016 \$000
Trade payables	19,353	24,417
Other payables	4,044	7,059
Deferred revenue	7,845	1,299
	31,242	32,775

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

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### C FUNDING AND CAPITAL MANAGEMENT

#### C1 Borrowings

	31 MAR 2017 \$000	31 MAR 2016 \$000
<b>Current</b>		
Obligations under finance leases	3,691	4,176
<b>Non-current</b>		
Obligations under finance leases	3,704	5,769
Secured bank loan facility	311,452	283,939
Convertible notes	47,762	75,486
	<u>362,918</u>	<u>365,194</u>

#### Secured bank loan facility

Facility A and Facility B loans are both repayable on 30 June 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 \$312,000,000 (31 March 2016: \$285,000,000) and is offset in the Statement of Financial Position by a prepaid facility participation fee of \$548,000 (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:

	31 MAR 2017 \$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	(313,454)	(286,454)
Unused	<u>89,546</u>	<u>116,546</u>

#### Convertible notes

The Company issued 160 subordinated convertible notes to an existing shareholder of the Company for \$80 million under the AACo Subordinated Notes Deed Poll dated 16 October 2013 (Deed Poll). The notes are unsecured and subordinated to the Company's senior bank debt. The notes expire on 30 September 2023 and the noteholder 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 noteholder 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 \$1.1486 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.

The current noteholder is The AA Trust which 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.

During the period, The AA Trust exercised its right under the Deed Poll to convert some of the Convertible Notes into fully paid ordinary shares in the Company. In October 2016, The AA Trust converted 59 of the 160 Convertible Notes into 25,683,440 ordinary shares. In April 2017, after the year end, the AA Trust converted a further 65 of the Convertible Notes into 28,295,316 ordinary shares. The conversion price applicable at the time of the conversion of the 124 Convertible Notes into fully paid ordinary shares was \$1.1486 per ordinary share. The conversion price was calculated in accordance with the adjustment mechanisms set out in the Deed Poll. The convertible notes are presented in the Statement of Financial Position as follows:

	31 MAR 2017 \$000	31 MAR 2016 \$000
Face value of notes issued	50,500	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	6,138	4,362
	<u>47,762</u>	<u>75,486</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### C2 Derivatives

	31 MAR 2017 \$000	31 MAR 2016 \$000
<b>Current assets</b>		
Foreign currency contracts	73	569
<b>Current liabilities</b>		
Interest rate swap contracts	5,382	7,290
Embedded interest rate derivative in convertible note	804	1,602
	6,186	8,892

### Foreign currency contracts

	NOTIONAL AMOUNTS (AUD) 31 MAR 17 \$000	NOTIONAL AMOUNTS (AUD) 31 MAR 16 \$000	AVERAGE EXCHANGE RATE 31 MAR 17 AUD/USD	AVERAGE EXCHANGE RATE 31 MAR 16 AUD/USD
<b>SELL FX/BUY AUD</b>				
Sell USD Maturity 0-12 months	10,811	9,616	0.7575	0.7178

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 2017 was \$63,000 with \$10,000 effective and \$74,000 ineffective (12 months to 31 March 2016: \$569,000 with \$495,000 effective and \$74,000 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 2017 \$000	31 MAR 2016 \$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 2017 the gain or loss recognised for interest rate swaps into profit or loss was \$3,059,000 (twelve months to 31 March 2016: \$3,013,000). There was no hedge ineffectiveness in the current or prior year.

### C3 Equity

	31 MAR 17 SHARES	31 MAR 16 SHARES	31 MAR 17 \$000	31 MAR 16 \$000
Opening balance	532,936,231	532,824,721	461,213	461,213
Shares issued on exercise of performance rights	90,742	111,510	-	-
Shares issued on exercise of options	-	-	-	-
Issue of performance rights from share-based payments reserve	-	-	-	-
Value of conversion rights – convertible notes	25,683,440	-	29,500	-
Total contributed equity	558,710,413	532,936,231	490,713	461,213



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (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.

ASSET AND CAPITAL STRUCTURE	31 MAR 2017 \$000	31 MAR 2016 \$000
<b>Debt:</b>		
Current interest-bearing loans and borrowings	3,691	4,176
Non-current interest-bearing loans and borrowings		
Obligations under finance leases	3,704	5,769
Bank loan facility <sup>(1)</sup>	312,000	285,000
Convertibles notes <sup>(1)</sup>	50,500	80,000
Bank guarantees	1,454	1,454
<b>Cash:</b>	(42,533)	(14,659)
<b>Net debt</b>	<b>328,816</b>	<b>361,740</b>
<b>Net equity</b>	<b>1,017,743</b>	<b>886,136</b>
<b>Total capital employed</b>	<b>1,346,559</b>	<b>1,247,876</b>
<b>Gearing (Net debt/net debt+equity)</b>	<b>24.4%</b>	<b>29.0%</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:

	31 MAR 2017 \$000	31 MAR 2016 \$000
Net profit attributable to ordinary equity holders of the parent (basic)	71,586	67,807
Interest expense on convertible notes, net of tax	1,967	2,344
Net profit attributable to ordinary equity holders of the parent (diluted)	73,553	70,151

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

	31 MAR 2017 NUMBER	31 MAR 2016 NUMBER
Weighted average number of ordinary shares (basic)	543,620,852	532,926,734
Adjustments for calculation of diluted earnings per share:		
Weighted average options, rights and convertible notes	44,091,524	69,782,192
Weighted average number of ordinary shares (diluted) as at 31 March	587,712,376	602,708,926

Convertible notes (refer note C1) were dilutive as at 31 March 2017 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 2017 (twelve months to 31 March 2016: nil). There are no franking credits available for the subsequent financial year (31 March 2016: nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### D FINANCIAL RISK MANAGEMENT

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 interest rate swaps totalling \$200 million were entered into. 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 \$1,908,000 movement in other comprehensive income in the twelve months to 31 March 2017 (31 March 2016: \$3,176,000). At 31 March 2017, after taking into account the effect of interest rate swaps, approximately 64% (31 March 2016: 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 2017 \$000	31 MAR 2016 \$000
<b>Financial Assets</b>		
Cash assets	42,533	14,659
<b>Financial Liabilities</b>		
Bank loan	(105,000)	(85,000)
Convertible notes	(50,500)	(80,000)
Interest rate swaps	(5,382)	(7,290)
Embedded interest rate derivate	(804)	(1,601)
<b>Net exposure</b>	<b>(119,153)</b>	<b>(159,232)</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.

	EFFECT ON PROFIT BEFORE TAX		EFFECT ON EQUITY
JUDGEMENTS OF REASONABLY POSSIBLE MOVEMENTS:	\$000		\$000
<b>31 MAR 2017</b>			
+1% (100 basis points)	(1,300)		(2,500)
-1% (100 basis points)	1,300		2,500
<b>31 MAR 2016</b>			
+1% (100 basis points)	(960)		(4,500)
-1% (100 basis points)	960		4,500

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### D1 Financial Risk (continued)

#### (ii) Foreign currency risk

The majority of our revenue is received in US dollars, 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 2017, 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 \$73,000 movement in other comprehensive income and a \$10,000 movement in profit and loss in the twelve months to 31 March 2017 (31 March 2016: \$495,000 movement in other comprehensive income and a \$74,000 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 2017 EUR \$000	31 MAR 2017 USD \$000	31 MAR 2016 EUR \$000	31 MAR 2016 USD \$000
<b>Financial Assets</b>				
Trade receivables	155	4,439	125	11,372
Derivatives	-	73	-	569
<b>Financial Liabilities</b>				
Derivatives	-	-	-	-
<b>Net exposure</b>	<b>155</b>	<b>4,512</b>	<b>125</b>	<b>11,941</b>

At 31 March 2017, had the Australian Dollar moved and all other variables held constant, profit before tax and equity would have been affected as illustrated in the table below. 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		EFFECT ON EQUITY
	BEFORE TAX		
	\$000		\$000
<b>31 MAR 2017</b>			
AUD/USD +10%	181		1,110
AUD/USD -10%	(221)		(1,357)
<b>31 MAR 2016</b>			
AUD/USD +10%	152		1,015
AUD/USD -10%	(185)		(1,240)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### D1 Financial Risk (continued)

#### (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 2017 we had forward purchased approximately 62% (31 March 2016: 38%) 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.

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 2017 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 (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 2017, 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 2017. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

## D1 Financial Risk (continued)

(vi) Liquidity risk (continued)

	LESS THAN 6 MONTHS \$000	6-12 MONTHS \$000	1-2 YEARS \$000	2-5 YEARS \$000	TOTAL \$000	CARRYING AMOUNT \$000
<b>31 MAR 2017</b>						
<b>Financial assets</b>						
Cash	42,533	-	-	-	42,533	42,533
Trade and other receivables	14,091	-	-	-	14,091	14,091
Derivatives	73	-	-	-	73	73
<b>Financial liabilities</b>						
Trade and other payables	(31,242)	-	-	-	(31,242)	(31,242)
Borrowings	(8,128)	(8,598)	(319,924)	(52,122)	(388,772)	(366,609)
Derivatives	(1,915)	(1,918)	(1,716)	-	(5,549)	(5,382)
Net maturity	15,412	(10,516)	(321,640)	(52,122)	(368,886)	(346,536)
<b>31 MAR 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)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

## E UNRECOGNISED ITEMS

### E1 Commitments

	31 MAR 2017 \$000	31 MAR 2016 \$000
Future minimum lease payments under non-cancellable operating leases for land and buildings are as follows:		
Not later than one year	2,971	3,406
Later than one year but not later than five years	4,545	5,470
Later than five years	202	3,055
Total leased land and buildings	7,718	11,931
Future minimum lease payments for motor vehicles under finance leases and hire purchase are as follows:		
Within one year	1,681	2,171
After one year but not more than five years	1,175	2,552
Total minimum lease payments	2,856	4,723
Future minimum payments under equipment finance together with the present value of the net minimum lease payments are as follows:		
Within one year	2,160	2,444
Later than one year but not later than five years	2,668	3,553
Later than 5 years	-	-
Total equipment finance	4,828	5,997

### Other commitments

We have entered into forward purchase contracts for \$14,065,000 worth of grain commodities as at 31 March 2017 (31 March 2016: \$9,951,000) and forward purchase contracts for \$42,801,000 worth of cattle as at 31 March 2017 (31 March 2016: \$64,816,000). The contracts are expected to be settled within 12 months from balance date.

Capital expenditure has been contracted in respect of property, plant and equipment for \$2,853,000 as at 31 March 2017 (31 March 2016: nil).

### E2 Contingencies

At 31 March 2017 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

FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

## F OTHER

### F1 Property, plant and equipment at cost

	PASTORAL PLANT AND EQUIPMENT \$000	INDUSTRIAL PLANT AND EQUIPMENT \$000	INDUSTRIAL PROPERTY AND IMPROVEMENTS \$000	INDUSTRIAL WIP \$000	TOTAL \$000
<b>31 MAR 2017</b>					
Opening balance	22,070	25,638	78,976	-	126,684
Additions	2,841	2,699	230	6,435	12,205
Disposals	(211)	(38)	-	-	(249)
Depreciation	(5,217)	(7,220)	(1,690)	-	(14,127)
<b>Closing balance</b>	<b>19,483</b>	<b>21,079</b>	<b>77,516</b>	<b>6,435</b>	<b>124,513</b>
Cost	86,422	34,591	82,838	6,435	210,286
Accumulated depreciation	(66,939)	(13,512)	(5,322)	-	(85,773)

	PASTORAL PLANT AND EQUIPMENT \$000	INDUSTRIAL PLANT AND EQUIPMENT \$000	INDUSTRIAL PROPERTY AND IMPROVEMENTS \$000	INDUSTRIAL WIP \$000	TOTAL \$000
<b>31 MAR 2016</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>-</b>	<b>126,684</b>
Cost	83,581	31,892	82,608	-	198,081
Accumulated depreciation	(61,511)	(6,254)	(3,632)	-	(71,397)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

## F2 Tax

THE MAJOR COMPONENTS OF TAX EXPENSE ARE:	31 MAR 2017 \$000	31 MAR 2016 \$000
<b>Income statement</b>		
<i>Current income tax</i>		
Current income tax charge/(benefit)	(7)	(207)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	28,138	29,429
Under/(over) provision in prior years	858	53
Research and development claims from prior years	(4,276)	-
Income tax expense/(benefit) in the income statement	24,713	29,275
<b>Statement of changes in equity</b>		
<i>Deferred income tax</i>		
Net gain/(loss) on cash flow hedges	416	1,815
Net gain on revaluation of land and buildings	12,609	22,158
Income tax (benefit)/expense reported in equity	13,025	23,973
<b>Tax reconciliation</b>		
Accounting profit/(loss) before tax	96,299	97,082
At the statutory income tax rate of 30%	28,890	29,125
Research and development offsets	(4,461)	(26)
Other items (net)	284	176
Income tax expense/(benefit) in the income statement	24,713	29,275
<b>Deferred income tax in the balance sheet relates to:</b>		
<i>Deferred tax liabilities</i>		
Accelerated depreciation for tax purposes	(1,551)	(119)
Revaluations of land and buildings to fair value	(70,034)	(56,280)
Revaluations of trading stock for tax purposes	(56,174)	(30,139)
Other	(1,383)	(1,177)
Offsetting deferred tax asset	10,971	7,282
	(118,171)	(80,433)
<i>Deferred tax assets</i>		
Accruals and other	272	475
Capitalised expenses accelerated for book purposes	1,114	1,811
Interest rate swaps	1,692	2,187
Cash flow hedges	200	542
Leave entitlements	1,263	1,188
Franking deficit tax	1,012	1,012
Research and development offsets	5,351	-
Individually insignificant balances	67	67
Total deferred tax asset (offset against deferred tax liability)	10,971	7,282
<b>Deferred income tax in the income statement relates to:</b>		
Revaluations of trading stock for tax purposes	25,191	28,660
Other	1,741	(1,432)
Accruals and other	55	(271)
Capitalised expenses accelerated for book purposes	465	618
Change in fair value of property, plant and equipment	686	1,854
Total deferred tax expense/(benefit)	28,138	29,429



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### F3 Other earnings disclosures

	31 MAR 2017 \$000	31 MAR 2016 \$000
Other income	3,662	4,352
Cropping income	1,060	5,829
Total other income	4,722	10,181
Interest expense	17,725	18,387
Other finance costs	2,445	2,429
Total finance costs	20,170	20,816
Remuneration and on-costs	46,716	43,568
Superannuation and post-employment benefits	3,848	3,581
Other employment benefits	2,471	3,567
Share-based payments expense	44	92
Total employee expenses	53,079	50,808
Other earnings information:		
Minimum lease payments – operating leases	5,367	7,756
Commodity and foreign currency expense/(benefit)	(1,151)	(948)

### 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 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
<b>At 1 April 2016</b>	280,473	84,762	(4,762)	5,612	366,085
Revaluation of land and buildings	42,030	-	-	-	42,030
Tax effect on revaluation of land and buildings	(12,609)	-	-	-	(12,609)
Net movement in cash flow hedges	-	-	1,058	-	1,058
Issue of performance rights from share-based payment reserve	-	-	-	-	-
Share based payment	-	-	-	42	42
<b>At 31 March 2017</b>	309,894	84,762	(3,704)	5,654	396,606

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

FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

## F5 Related parties

	31 MAR 2017	31 MAR 2016
COMPENSATION FOR KEY MANAGEMENT PERSONNEL	\$000	\$000
Short-term employee benefits	3,130	2,558
Post-employment benefits	254	190
Share-based payment	36	58
Termination benefits	502	-
Long-term benefits	5	5
Total compensation	3,927	2,811

## 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 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 noteholder is entitled to convert the notes in ordinary shares from 1 September 2014 until 15 days prior to maturity at \$1.1486 per AACo share, with no price payable on conversion. In October 2016, the AA Trust converted 59 of the 160 Convertible Notes into 25,683,440 ordinary shares and in April 2017 the AA Trust converted a further 65 of the Convertible Notes into 28,295,316 ordinary shares. The conversion price applicable at the time of the conversion of the 124 Convertible Notes into fully paid ordinary shares was \$1.1486 per ordinary share. The conversion price was calculated in accordance with the adjustment mechanisms set out in the Deed Poll.

The remaining 36 Convertible Notes are due to mature on 30 September 2023 unless converted or redeemed at an earlier date.

The interest paid during the year amounts to \$2,215,000 (31 March 2016: \$2,633,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### F6 Share-based payments

The share-based payment plans are described below. During 2017, expense arising from equity settled share-based payment transactions was \$42,000 (31 March 2016: \$92,000).

#### 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 2016 and 2017.

#### Performance rights plan (PRP)

The Company's Performance Rights Plan has been in place since 2011 and 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 performance rights will remain until such time as they are either exercised or the rights lapse. 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 2017 and 31 March 2016.

31 MAR 2017	EOP NO.	EOP WAEP \$	PRP NO.
Outstanding at the beginning of the period	590,625	2.64	190,653
Granted during the period	-	-	-
Forfeited during the period	-	-	(12,874)
Exercised during the period	-	-	(90,742)
Outstanding at the end of the period	590,625	2.64	87,037
Exercisable at the end of the period	590,625		-
Weighted average remaining contractual life (days)	468		127
Weighted average fair value at grant date	-		1.24
Range of exercise prices (\$)	2.04-3.22		-
31 MAR 2016	EOP NO.	EOP WAEP \$	PRP NO.
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		-

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### F7 Controlled entities

The consolidated financial statements include the following controlled entities:

NAME OF ENTITY	NOTES	COUNTRY OF INCORPORATION	31 MAR 2017 % OF SHARES HELD	31 MAR 2016 % 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
Chefs Partner Pty Ltd	(a)	Australia	100	100
Polkinghorne Stores Pty Limited		Australia	100	100
Northern Australian Beef Limited	(a)	Australia	100	100
AACo Innovation Pty Ltd		Australia	100	100
AACo Innovation (US) Pty Ltd		Australia	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 2017 \$000	31 MAR 2016 \$000
<b>Current Assets</b>		
Cash	42,533	14,659
Trade and other receivables	14,091	23,705
Inventories and consumables	28,574	34,116
Livestock	269,850	235,053
Derivatives	73	569
Other assets	1,406	1,799
<b>Total Current Assets</b>	<b>356,527</b>	<b>309,901</b>
<b>Non-Current Assets</b>		
Livestock	392,632	328,195
Property, plant and equipment	792,373	741,784
Intangible assets	3,024	3,239
Investment – at cost	1,099	-
Intercompany receivable	3,342	3,342
<b>Total Non-Current Assets</b>	<b>1,192,470</b>	<b>1,076,560</b>
<b>Total Assets</b>	<b>1,548,997</b>	<b>1,386,461</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

## F7 Controlled entities (continued)

	31 MAR 2017 \$000	31 MAR 2016 \$000
<b>Current Liabilities</b>		
Trade and other payables	31,242	32,775
Provisions	3,727	3,715
Borrowings	3,691	4,176
Derivatives	6,186	8,892
<b>Total Current Liabilities</b>	<b>44,846</b>	<b>49,558</b>
<b>Non-Current Liabilities</b>		
Provisions	1,977	1,798
Borrowings	362,918	365,194
Deferred tax liabilities	118,171	80,433
<b>Total Non-Current Liabilities</b>	<b>483,066</b>	<b>447,425</b>
<b>Total Liabilities</b>	<b>527,912</b>	<b>496,983</b>
<b>Net Assets</b>	<b>1,021,085</b>	<b>889,478</b>
<b>Equity</b>		
Contributed equity	490,713	461,213
Reserves	396,606	366,085
Retained earnings	133,766	62,180
<b>Total Equity</b>	<b>1,021,085</b>	<b>889,478</b>
<b>INCOME STATEMENT OF THE CLOSED GROUP:</b>		
	<b>31 MAR 2017 \$000</b>	<b>31 MAR 2016 \$000</b>
<b>Revenue</b>		
Meat sales	383,036	428,272
Cattle sales	63,691	61,084
	446,727	489,356
Cattle fair value adjustments	300,026	274,578
	746,753	763,934
Cost of meat sold	(341,558)	(335,145)
Deemed cost of cattle sold	(63,691)	(61,084)
Cattle expenses	(99,753)	(128,614)
<b>Gross operating margin</b>	<b>241,751</b>	<b>239,091</b>
Other income	4,722	10,181
<b>Expenses</b>		
Administration and other non-station operating costs	(24,769)	(26,995)
Other operating costs	(28,681)	(30,356)
Employee expenses	(53,079)	(50,808)
Lease and property related costs	(6,728)	(8,946)
Depreciation and amortisation	(19,032)	(20,450)
Change in fair value of property	2,285	6,181
<b>Profit before finance costs and income tax expense</b>	<b>116,469</b>	<b>117,898</b>
Net finance costs	(20,170)	(20,816)
<b>Profit before income tax</b>	<b>96,299</b>	<b>97,082</b>
Income tax expense	(24,713)	(29,275)
<b>Net profit after tax</b>	<b>71,586</b>	<b>67,807</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### F8 Parent entity

	31 MAR 2017 \$000	31 MAR 2016 \$000
Current assets	149	2,410
Non-current assets	855,320	828,192
Total assets	855,469	830,602
Current liabilities	9,539	12,874
Non-current liabilities	458,942	439,858
Total liabilities	468,481	452,732
Net assets	386,988	377,870
Contributed equity	490,713	461,213
Reserves <sup>(1)</sup>	85,948	78,243
Accumulated losses	(189,673)	(161,586)
Total equity	386,988	377,870
(Loss) of the parent entity	(28,087)	(49,905)
Total comprehensive loss of the parent entity	(20,382)	(63,625)

<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 2017 and 31 March 2016.

Australian Agricultural Company Limited 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 2017. No liability was recognised by Australian Agricultural Company Limited 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

	31 MAR 2017 \$	31 MAR 2016 \$
Remuneration received, or due and receivable, by KPMG for: An audit or review of the financial report of the entity and any other entity in the consolidated Group	352,500	356,500
Other assurance services	9,500	-
Total	362,000	356,500

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### G POLICY DISCLOSURES

#### 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 2017 were authorised for issue in accordance with a resolution of the Directors on 10 May 2017.

We recommend the financial statements be considered together with any public announcements made by the Company during the year ended 31 March 2017 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 2017, prior period comparatives have been reclassified to conform with current year presentation. None of the reclassification are considered material.

##### (f) Rounding

Amounts in the financial statements have been rounded to the nearest thousand dollars for presentation where noted (\$000). This has been completed under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which this legislative instrument applies.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### 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 2016. 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 2019 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### G3 Accounting policies (continued)

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

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### G3 Accounting policies (continued)

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### G3 Accounting policies (continued)

#### (i) Plant and equipment (continued)

##### (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### G3 Accounting policies (continued)

#### (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE TWELVE MONTHS TO 31 MARCH 2017 (CONTINUED)

### G3 Accounting policies (continued)

#### (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 2017 are in accordance with the *Corporations Act 2001*, including:
    - (i) Giving a true and fair view of its financial position as at 31 March 2017 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 2017.
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 'DMG', with a long horizontal flourish extending to the right.

Donald McGauchie  
Chairman

Brisbane  
10 May 2017

# INDEPENDENT AUDIT REPORT



## Independent Auditor's Report

To the shareholders of Australian Agricultural Company Limited

### Report on the audit of the Financial Report

#### Opinion

We have audited the *Financial Report* of Australian Agricultural Company Limited (the Company).

In our opinion, the accompanying *Financial Report* of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the *Group's* financial position as at 31 March 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The *Financial Report* comprises the:

- consolidated statement of financial position as at 31 March 2017;
- consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended;
- notes including a summary of significant accounting policies; and
- Directors' Declaration.

The *Group* consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

#### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the relevant ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

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 Profession Standards Legislation.

# INDEPENDENT AUDIT REPORT



## Key Audit Matters

The **Key Audit Matters** we identified are:

- quantity and valuation of livestock;
- valuation of property and improvements; and
- carrying value of industrial property and improvements, industrial plant and equipment, and industrial capital works in progress.

**Key Audit Matters** are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

## Quantity and valuation of livestock (\$662.5m)

Refer to note A3 *Livestock* in the Financial Report.

The key audit matter	How the matter was addressed in our audit
<p>The quantity and valuation of livestock is considered a Key Audit Matter due to:</p> <ul style="list-style-type: none"> <li>• the size of the balance (being 42.9% of total assets);</li> <li>• the risk of error associated in quantifying livestock at year end given the nature of the assets. In quantifying livestock the Group uses estimates of birth rates, animal growth rates and rate of attrition; and</li> <li>• the level of judgement required by us in evaluating the market prices used by the Group.</li> </ul> <p>The Group has appointed an external independent valuer to value livestock where there is no readily observable market price.</p> <p>The judgements made in assessing the quantity and value of livestock have a significant impact on the Group's financial performance and financial position.</p> <p>In assessing this Key Audit Matter, we involved senior audit team members who understand the industry and the complexities involved in quantifying and valuing livestock.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• an evaluation of the Group's livestock accounting process. We tested the key controls in this process including IT systems controls and the Group's periodic reconciliation of physical livestock records with accounting systems;</li> <li>• comparing estimates of birth rates, animal growth rates and rate of attrition to historical data and our industry understanding;</li> <li>• comparing a sample of market prices adopted by the Group to a range of observable market prices;</li> <li>• evaluating the competence, capabilities and objectivity of the external independent valuer used by the Group; and</li> <li>• reading the report of the external independent valuer and evaluating their conclusions for consistency with our understanding of the business, industry conditions and other information available to us.</li> </ul>



# INDEPENDENT AUDIT REPORT



## Valuation of property and improvements (\$667.9m)

Refer to Note A4 *Property* in the Financial Report.

The key audit matter	How the matter was addressed in our audit
<p>The valuation of property and improvements is considered a Key Audit Matter due to:</p> <ul style="list-style-type: none"> <li>the size of the balance (being 43.2% of total assets); and</li> <li>the level of judgement required by us to evaluate the Group's assessment of the fair value of property and improvements.</li> </ul> <p>The Group's assessment of fair value of property and improvements involves significant judgements, including determination of:</p> <ul style="list-style-type: none"> <li>the valuation methodology applied to each property;</li> <li>the Adult Equivalent carrying capacity of each property; and</li> <li>the corresponding dollar per Adult Equivalent, per Standard Cattle Unit or per hectare.</li> </ul> <p>The Group has appointed external independent valuers and other external experts to assist in the determination of these key valuation inputs.</p> <p>The judgements made in assessing the fair value of property and improvements have a significant impact on the Group's financial position.</p> <p>In assessing this Key Audit Matter, we involved senior audit team members, including valuation specialists, who understand the nature of the Group's properties, comparable properties and recent comparable market transactions.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>evaluating the competence, capabilities and objectivity of external independent valuers and other external experts used by the Group;</li> <li>reading the reports of the external independent valuers and other external experts and evaluating their conclusions for consistency with our understanding of the properties, environmental conditions and other information available to us; and</li> <li>comparing the valuation methodology for each property to accepted market practices, industry experience, and criteria in the accounting standards.</li> </ul>

# INDEPENDENT AUDIT REPORT



Carrying value of industrial property and improvements (\$77.5m), industrial plant and equipment (\$21.1m) and industrial capital works in progress (\$6.4m) – the Livingstone Beef Processing Facility

Refer to Note F1 Property, plant and equipment at cost in the Financial Report.

The key audit matter	How the matter was addressed in our audit
<p>Assessment of the carrying value of industrial property and improvements and industrial plant and equipment (the Livingstone Beef Processing Facility) is considered a Key Audit Matter due to the level of judgement required by us in evaluating the Group's impairment assessment.</p> <p>In addition, the meat processing sector has experienced increased pressure on profitability due to increasing cattle purchase prices, while the beef sales prices have remained relatively unchanged.</p> <p>These factors increased the risk of impairment and created complexity in our audit.</p> <p>The Group's impairment assessment of the Livingstone Beef Processing Facility, through their fair value less cost of disposal (FVLCD) model, applies significant judgements, including:</p> <ul style="list-style-type: none"> <li>• future cattle purchase prices and meat sales prices;</li> <li>• future capital expenditure and expected production levels; and</li> <li>• terminal growth rate and discount rate applied.</li> </ul> <p>In assessing this Key Audit Matter, we involved senior audit team members, including valuation specialists, with experience in the industry and the valuation methodology.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• testing a sample of controls relating to the Group's assessment of impairment of the Livingstone Beef Processing Facility, including board approval of key inputs to the assessment such as budgets, and the underlying operating and capital expenditure assumptions;</li> <li>• assessing the discount rate applied and terminal growth rate by comparing to external data, such as peer group forecasts, and our own assessments based on industry experience and knowledge of the Group;</li> <li>• critically evaluating the key cash flow assumptions by: <ul style="list-style-type: none"> <li>- comparing future cattle purchase prices and meat sales prices applied to published industry information, including past market price trends; and</li> <li>- assessing the Group's forecast future operating cash flows, capital expenditure and production levels against previous and current levels achieved;</li> </ul> </li> <li>• performing sensitivity analysis on key assumptions to assess the Group's consideration of alternate assumptions or outcomes which could indicate impairment; and</li> <li>• comparing the earnings multiple implicit in the Group's assessed FVLCD to comparable entities and transactions.</li> </ul>

# INDEPENDENT AUDIT REPORT



## Other Information

Other Information is financial and non-financial information in the Company's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report, including the Remuneration Report, the Corporate Governance Statement, ASX Additional Information and Company Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information and, based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report, we have nothing to report.

## Responsibilities of Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf). This description forms part of our Auditor's Report.

# INDEPENDENT AUDIT REPORT



## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of the Company for the year ended 31 March 2017, complies with *Section 300A* of the *Corporations Act 2001*.

### Director's responsibilities

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 responsibilities

We have audited the Remuneration Report included in pages 14 to 28 of the Director's Report for the year ended 31 March 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our Audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Simon Crane  
Partner

Brisbane  
10 May 2017

## 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 28 April 2017.

### (a) Distribution of equity securities

#### *Ordinary share capital*

587,005,729 fully paid ordinary shares are held by 10,292 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	2,218
1,001 to 5,000	3,944
5,001 to 10,000	1,700
10,001 to 100,000	2,244
100,001 and Over	186
<b>TOTAL</b>	<b>10,292</b>

#### *Unquoted equity securities*

36 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 noteholder is entitled to convert the notes in ordinary shares from 1 September 2014 until 15 days prior to maturity at \$1.1486 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 full convertible notes issued.

During the period, The AA Trust exercised its right under the Deed Poll to convert some of the Convertible Notes into fully paid ordinary shares in the Company. In October 2016, The AA Trust converted 59 of the 160 Convertible Notes into 25,683,440 ordinary shares and in April 2017 the AA Trust converted a further 65 of the Convertible Notes into 28,295,316 ordinary shares. The conversion price applicable at the time of the conversion of the 124 Convertible Notes into fully paid ordinary shares was \$1.1486 per ordinary share. The conversion price was calculated in accordance with the adjustment mechanisms set out in the Deed Poll.

## ASX ADDITIONAL INFORMATION (CONTINUED)

### (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	182,270,266	31.05%
J P MORGAN NOMINEES AUSTRALIA LIMITED	154,565,317	26.33%
NATIONAL NOMINEES LIMITED	41,017,022	6.99%
CITICORP NOMINEES PTY LIMITED	36,279,190	6.18%
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	9,764,462	1.66%
BNP PARIBAS NOMS PTY LTD <DRP>	8,307,935	1.42%
FORTE LAND PTY LTD	3,785,690	.64%
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	3,474,087	.59%
CUSTODIAL SERVICES LIMITED <BENEFICIARIES HOLDING A/C>	3,309,198	.56%
MIRRABOOKA INVESTMENTS LIMITED	2,600,000	.44%
DJERRIWARRH INVESTMENTS LIMITED	2,100,000	.36%
BELFORT INVESTMENT ADVISORS LIMITED	2,087,945	.36%
NIZIN HOLDINGS PTY LTD <CHARLES CROPPER A/C>	2,000,000	.34%
AMCIL LIMITED	1,750,000	.30%
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	1,589,230	.27%
MR JOHN QIANG HE	1,422,113	.24%
QUOTIDIAN NO2 PTY LTD	1,377,185	.23%
SANDHURST TRUSTEES LTD <JMFG CONSOL A/C>	1,362,674	.23%
QUALITY LIFE PTY LTD <THE NEILL FAMILY A/C>	1,255,000	.21%
NEASHAM HOLDINGS PTY LTD <THE NEASHAM A/C>	1,220,735	.21%

### (c) Substantial shareholders

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

ORDINARY SHAREHOLDERS	NUMBER
Bryan Glinton as trustee of The AA Trust	240,406,580
Ausbil Investment Management Limited	40,670,853

### (d) Marketable Shares

The number of security investors holding less than a marketable parcel of 295 securities (\$1.700 on 27 April 2017) is 496 and they hold 30,522 securities.

# COMPANY INFORMATION

## 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