



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

## **FINANCIAL REPORT**

**For the half-year ended**  
**30 September 2017**



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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the financial report for the year ended 31 March 2017 and any public announcements made by Australian Agricultural Company Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.



# DIRECTORS' REPORT

Your Directors present their report on the Group consisting of Australian Agricultural Company Limited and the entities it controlled (AACo) for the half-year ended 30 September 2017.

## DIRECTORS

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

Donald McGauchie AO (Non-executive Chairman)  
Jason Strong (Managing Director) (resigned 11 August 2017)  
Stuart Black AM (Non-executive Director)  
David Crombie AM (Non-executive Director)  
Tom Keene (Non-executive Director)  
Dr Shehan Dissanayake (Executive Director)  
Anthony Abraham (Non-executive Director)  
Neil Reisman (Non-executive Director)

## 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. AACo employed 578 employees calculated on a full time equivalent basis as at 30 September 2017 (31 March 2017: 549).

### AACo's Business Model

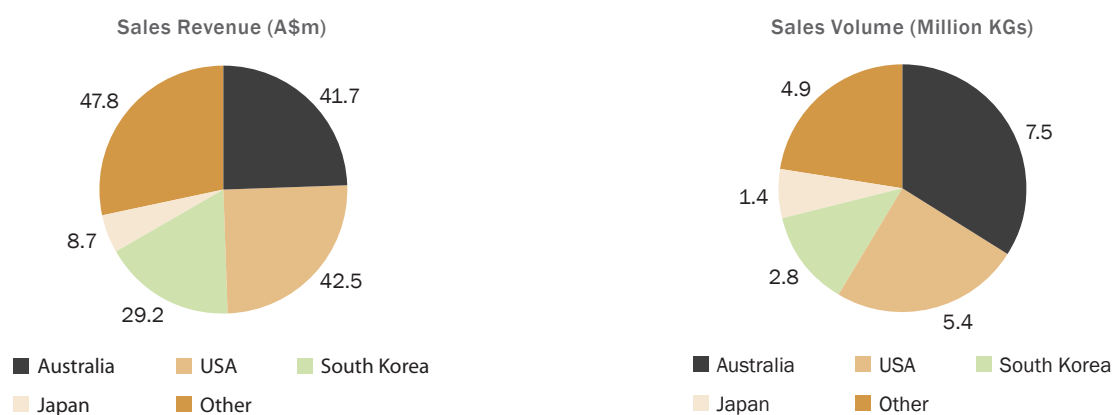
AACo is a fully integrated branded beef business with three principal activities:

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

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 located throughout 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 predominantly generates sales revenue. The charts below show the volume and sales contribution by region in H1FY18.





## DIRECTORS' REPORT (CONTINUED)

### OPERATING AND FINANCIAL REVIEW (continued)

	6 MONTHS TO 30 SEP 2017 \$'000	6 MONTHS TO 30 SEP 2016 \$'000
<b>BRANDED BEEF REVENUE FROM EXTERNAL CUSTOMERS</b>		
Australia	41,675	57,091
USA	42,522	43,299
South Korea	29,243	33,334
Japan	8,669	11,523
Other Countries	47,789	50,666
Total Revenue	169,898	195,913

### Key Financial Indicators Used by Management

	6 MONTHS TO 30 SEP 2017 \$'000	6 MONTHS TO 30 SEP 2016 \$'000
Meat sales	169,898	195,913
Cattle sales	27,331	18,182
Administration costs	(14,217)	(12,886)
Statutory EBITDA <sup>(1)</sup>	(36,485)	88,268
Statutory EBIT	(45,504)	78,546
Net (loss)/profit after tax	(37,669)	47,878
Net cash outflow from operating activities	(47,475)	(34,468)
Operating EBITDA <sup>(1)</sup>	16,088	13,853

<sup>(1)</sup>Refer to page 4 and page 5 for the definition of Statutory EBITDA and Operating EBITDA, both of which are considered non-IFRS information and have not been reviewed by the Company's auditors.

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 inventory 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 loss of \$36.5m in H1FY18 (\$88.3m profit in H1FY17), Operating EBITDA was a profit of \$16.1m (\$13.9m profit in H1FY17). Operating EBITDA does not include unrealised livestock gains or losses, while Statutory EBITDA does include unrealised livestock gains or losses.



# DIRECTORS' REPORT (CONTINUED)

## OPERATING AND FINANCIAL REVIEW (continued)

### Statutory Financial Results

	6 MONTHS TO 30 SEP 2017 \$'000	6 MONTHS TO 30 SEP 2016 \$'000	MOVEMENTS \$'000
<b>Revenue</b>			
Meat sales <sup>(1)</sup>	169,898	195,913	(26,015)
Cattle sales <sup>(1)</sup>	27,331	18,182	9,149
<b>Sales revenue</b>	<b>197,229</b>	<b>214,095</b>	<b>(16,866)</b>
Cost of meat sold	(163,052)	(166,022)	2,970
Cattle fair value adjustments <sup>(2)</sup>	68,260	172,169	(103,909)
Deemed cost of live cattle sold <sup>(3)</sup>	(27,331)	(18,182)	(9,149)
Cattle expenses	(54,787)	(57,259)	2,472
<b>Gross operating margin</b>	<b>20,319</b>	<b>144,801</b>	<b>(124,482)</b>
<b>Other income</b>	<b>1,801</b>	<b>1,990</b>	<b>(189)</b>
<b>Expenses</b>			
Employee expenses	(28,729)	(27,360)	(1,369)
Administration costs	(14,217)	(12,886)	(1,331)
Other operating costs	(13,120)	(14,835)	1,715
Property costs	(2,539)	(3,442)	903
<b>Operating expenses</b>	<b>(58,605)</b>	<b>(58,523)</b>	<b>(82)</b>
<b>Earnings from operations – Statutory EBITDA<sup>(4)</sup></b>	<b>(36,485)</b>	<b>88,268</b>	<b>(124,753)</b>
Depreciation and amortisation	(9,019)	(9,722)	703
<b>Earnings from operations – Statutory EBIT<sup>(4)</sup></b>	<b>(45,504)</b>	<b>78,546</b>	<b>(124,050)</b>
Finance costs	(8,151)	(10,773)	2,622
<b>(Loss)/Profit before income tax</b>	<b>(53,655)</b>	<b>67,773</b>	<b>(121,428)</b>
Income tax benefit/(expense)	15,986	(19,895)	35,881
<b>Net (Loss)/Profit after tax</b>	<b>(37,669)</b>	<b>47,878</b>	<b>(85,547)</b>

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

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

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

<sup>(4)</sup>EBIT (earnings before interest and tax) and EBITDA (earnings before interest, tax, depreciation and amortisation)



# DIRECTORS' REPORT (CONTINUED)

## OPERATING AND FINANCIAL REVIEW (continued)

### Statutory Financial Results (continued)

The H1FY18 results demonstrate the progress that has been made, and the work that is being done to consolidate and execute the strategy to become a branded beef business. The Statutory EBITDA loss of \$36.5m includes an unrealised cattle market price loss of \$48.4m. Meat sales revenue of \$169.9m is down 13% compared to H1FY17 due to firstly a reduction in the volume of cattle purchases reflecting the strategic decision to transition to internal supply chains, and secondly the higher livestock price environment. Furthermore, there was a 2% decline in Livingstone beef pricing due to downward pressure on global commodity beef prices and a stronger Australian dollar.

There have been stronger sales prices for Luxury/Prestige and Premium beef brands during the period, and the Company celebrated its Taiwanese launch of Luxury beef brand Wylarah on 8 June 2017.

The volume of cattle sales have increased 22% compared to H1FY17, as a result of deliberate actions taken to improve the composition of the herd.

In mid-September, the Company concluded a successful refinance process which expanded the debt facility by \$100m to \$500m with significantly lower cost of funds and more flexible terms. As part of the refinancing the Company incurred \$4m during the period to close out the interest rate swaps.

The Company also completed the construction of a waste water treatment plant at the Livingstone Beef Processing Facility and made three minority interest investments to add strategic capability in data analytics, asset productivity and application development.

### Reconciliation of Operating EBITDA to Statutory EBITDA

The following tables 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 4 for definition).
- > Operating EBITDA, a measure that uses a standard price for the cattle component of cost of goods sold rather than utilising a market price, which is subject to volatility. Operating EBITDA assumes all inventory is valued on a \$/kg live-weight (lwt) basis, and the standard cost used in this calculation is based on forecast costs for operational expenditure and kilograms of beef produced.

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 30 September 2017 there was a \$52.6m 'unrealised loss' which is the difference between the movement of inventory at standard cost versus market value (30 September 2016: \$74.4m 'unrealised gain').

Operating EBITDA excludes any statutory revaluation of inventory.

	6 MONTHS TO 30 SEP 2017 \$'000	6 MONTHS TO 30 SEP 2016 \$'000
<b>Operating EBITDA</b>	<b>16,088</b>	<b>13,853</b>
Difference between the movement of inventory at standard cost versus market value	(52,573)	74,415
<b>Statutory EBITDA</b>	<b>(36,485)</b>	<b>88,268</b>
Depreciation and amortisation	(9,019)	(9,722)
<b>Statutory EBIT</b>	<b>(45,504)</b>	<b>78,546</b>
Finance costs	(8,151)	(10,773)
Income tax benefit/(expense)	15,986	(19,895)
<b>Net (loss)/profit after tax</b>	<b>(37,669)</b>	<b>47,878</b>



# DIRECTORS' REPORT (CONTINUED)

## OPERATING AND FINANCIAL REVIEW (continued)

### Operations

#### Sales and Marketing

In H1FY18, Luxury/Prestige and Premium beef pricing has continued to improve. The Livingstone beef pricing have dropped by 2% due to downward pressure on commodity beef prices resulting from increased cattle supplies, particularly in the US, and a stronger Australian dollar.

	6 MONTHS TO 30 SEP 2017	6 MONTHS TO 30 SEP 2016
Luxury/Prestige beef revenue – \$ mil	77.9	79.3
Luxury/Prestige beef kgs sold – mil kg CW <sup>(1)</sup>	5.0	5.8
Luxury/Prestige beef sold – \$/kg CW	15.58	13.59
Premium beef revenue – \$ mil	35.9	53.8
Premium beef kgs sold – mil kg CW	3.8	6.1
Premium beef sold – \$/kg CW	9.44	8.82
Livingstone beef revenue – \$ mil	56.1	62.8
Livingstone beef kgs sold – mil kg CW	13.1	14.4
Livingstone beef sold – \$/kg CW	4.28	4.36
Cattle sales – mil kg LW <sup>(1)</sup>	7.8	6.4
Cattle revenue – \$mil	27.3	18.2

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

#### Production

Kilograms produced is a measure of the number of kilograms of live weight grown on cattle throughout the breeding, backgrounding and feedlot operations of the Company during the period. Kilograms produced decreased in H1FY18 as a result of a higher attrition estimate recorded as a result of improved rigour and discipline in our stock count reconciliation process.

Cost of production is a measure of the operating costs incurred to produce a kilogram of live weight on cattle throughout the breeding, backgrounding and feedlot operations of the Company during the period. The cost of production increased by 2% in H1FY18 compared to H1FY17 reflecting operational improvements offset by less favourable seasonal conditions and higher input prices.

	6 MONTHS TO 30 SEP 2017	6 MONTHS TO 30 SEP 2016
Kilograms produced – mil Kg LW	37.8	40.9
Cost of production – \$/kg LW	2.13	2.09

#### 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 improved climatic conditions resulted in reduced volumes of cattle purchased for Livingstone Beef in H1FY18.

	6 MONTHS TO 30 SEP 2017	6 MONTHS TO 30 SEP 2016
Cattle purchases – mil kg LW	21.1	29.5
Cattle purchases – \$/kg LW	3.50	2.64
Over the hook purchases <sup>(2)</sup> – mil kg HSCW <sup>(3)</sup>	3.5	3.1
Over the hook purchases – \$/kg HSCW	3.80	4.50

<sup>(2)</sup> Over the hook purchases are purchases of carcasses prior to processing

<sup>(3)</sup> HSCW – hot standard carcase weight



# DIRECTORS' REPORT (CONTINUED)

## OPERATING AND FINANCIAL REVIEW (continued)

### Operations (continued)

#### Processing

The cost of third party toll processing increased marginally as we have increased the customisation and complexity of cuts and product breakdown for our Luxury/Prestige and Premium beef brands.

	6 MONTHS TO 30 SEP 2017	6 MONTHS TO 30 SEP 2016
Third party gross processing cost – \$/kg HSCW <sup>(1)</sup> (6 month average)	1.27	1.20

#### Operating Expenses

Operating expenses have increased by \$0.08m compared with the prior corresponding period due to an increase in employee expenses and administration costs, offset by a decrease in other operating and property costs.

#### Cattle fair value adjustments

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

	6 MONTHS TO 30 SEP 2017 \$'000	6 MONTHS TO 30 SEP 2016 \$'000
Unrealised cattle market price movements	(48,403)	76,080
Other cattle fair value adjustments	116,663	96,089
<b>Total cattle fair value adjustments</b>	<b>68,260</b>	<b>172,169</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 loss of \$48.4m, driven by a decrease in cattle market prices.

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

#### Risk Management

The Company is committed to identification, measurement and management of material business risks. The Company's breeding and sales programs to date have produced a herd with the right genetic and age profile to deal with the current and future geographic, weather and market conditions. Day-to-day production risks are managed by station managers 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 increased to 26.4% as at 30 September 2017 compared to 24.4% as at 31 March 2017.

	30 SEP 2017 \$'000	31 MAR 2017 \$'000
Current interest-bearing loans and borrowings	3,299	3,691
Non-current interest-bearing loans and borrowings:		
Obligations under finance leases	3,171	3,704
Bank loan facility <sup>(1)</sup>	340,200	312,000
Convertibles notes <sup>(1)</sup>	18,000	50,500
Bank guarantees	1,454	1,454
Cash	(5,389)	(42,533)
<b>Net debt</b>	<b>360,735</b>	<b>328,816</b>
Equity employed	1,006,208	1,017,743
<b>Gearing (net debt / net debt + equity)</b>	<b>26.4%</b>	<b>24.4%</b>

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

### Net Tangible Assets

The Company's net tangible assets per share was \$1.71 as at 30 September 2017, compared to \$1.82 as at 31 March 2017. Net tangible assets of the Company include leasehold land assets.

### Dividends

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



## DIRECTORS' REPORT (CONTINUED)

### OPERATING AND FINANCIAL REVIEW (continued)

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

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

The Company received a conversion notice in relation to the subordinated convertible notes maturing on 30 September 2023 which were issued by the Company on the terms set out in the AACo Subordinated Notes Deed Poll dated 16 October 2013. On 20 October 2017 the Company announced that the current noteholder, the AA Trust had exercised its right under the Deed Poll to convert the remaining 36 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 36 Convertible Notes is \$1.1484 per ordinary share. The conversion price has been calculated in accordance with the adjustment mechanisms set out in the Deed Poll. On 30 October 2017 a total of 15,673,981 ordinary shares were issued to the AA Trust on conversion. There are no outstanding Convertible Notes on issue under the Deed Poll.



# AUDITOR'S INDEPENDENCE DECLARATION



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

To the Directors of Australian Agricultural Company Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Australian Agricultural Company Limited for the half-year ended 30 September 2017 there have been:

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

  
KPMG



Simon Crane  
Partner

Brisbane  
15 November 2017

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Liability limited by a scheme approved under Professional Standards Legislation.



## DIRECTORS' REPORT (CONTINUED)

### 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.

Signed in accordance with a resolution of the Directors.

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

Donald McGauchie AO  
Chairman

Sydney  
15 November 2017



# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Income Statement

For the half-year ended 30 September 2017

	6 MONTHS TO 30 SEP 2017 \$000	6 MONTHS TO 30 SEP 2016 \$000
<b>Revenue</b>		
Meat sales	169,898	195,913
Cattle sales	27,331	18,182
	197,229	214,095
Cattle fair value adjustments	68,260	172,169
	265,489	386,264
Cost of meat sold	(163,052)	(166,022)
Deemed cost of live cattle sold	(27,331)	(18,182)
Cattle expenses	(54,787)	(57,259)
<b>Gross operating margin</b>	<b>20,319</b>	<b>144,801</b>
Other income	1,801	1,990
<b>Expenses</b>		
Employee expenses	(28,729)	(27,360)
Administration costs	(14,217)	(12,886)
Other operating costs	(13,120)	(14,835)
Property costs	(2,539)	(3,442)
Depreciation and amortisation	(9,019)	(9,722)
<b>(Loss)/Profit before finance costs and income tax</b>	<b>(45,504)</b>	<b>78,546</b>
Finance costs	(8,151)	(10,773)
<b>(Loss)/Profit before income tax</b>	<b>(53,655)</b>	<b>67,773</b>
Income tax benefit/(expense)	15,986	(19,895)
<b>Net (loss)/profit after tax</b>	<b>(37,669)</b>	<b>47,878</b>
<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	(6.46)	8.98
Diluted earnings per share	(6.46)	8.21

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



# CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## Consolidated Statement of Comprehensive Income For the half-year ended 30 September 2017

	6 MONTHS TO 30 SEP 2017 \$000	6 MONTHS TO 30 SEP 2016 \$000
(Loss)/Profit for the period	(37,669)	47,878
<b>Other comprehensive (loss)/income</b>		
Items not to be reclassified to profit or loss:		
Tax adjustment relating to revalued assets	-	-
Items that may be reclassified subsequently to profit or loss:		
Changes in the fair value of cash flow hedges, net of tax	783	(445)
<b>Other comprehensive (loss)/income for the period, net of tax</b>	783	(445)
<b>Total comprehensive (loss)/income for the period, net of tax</b>	<b>(36,886)</b>	<b>47,433</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 30 September 2017

	NOTE	30 SEP 2017 \$000	31 MAR 2017 \$000
<b>Current assets</b>			
Cash and cash equivalents		5,389	42,533
Trade and other receivables		25,041	14,091
Inventories and consumables		26,964	28,574
Livestock		315,631	269,850
Derivatives	5	833	73
Other assets		2,190	1,406
<b>Total current assets</b>		<b>376,048</b>	<b>356,527</b>
<b>Non-current assets</b>			
Livestock		337,439	392,632
Property, plant and equipment	3	791,964	792,373
Intangible assets		3,077	3,024
Other assets		2,958	1,099
<b>Total non-current assets</b>		<b>1,135,438</b>	<b>1,189,128</b>
<b>Total assets</b>		<b>1,511,486</b>	<b>1,545,655</b>
<b>Current liabilities</b>			
Trade and other payables		32,144	31,242
Provisions		4,191	3,727
Borrowings	4	3,299	3,691
Derivatives	5	225	6,186
<b>Total current liabilities</b>		<b>39,859</b>	<b>44,846</b>
<b>Non-current liabilities</b>			
Provisions		1,910	1,977
Borrowings	4	359,501	362,918
Deferred tax liabilities		104,008	118,171
<b>Total non-current liabilities</b>		<b>465,419</b>	<b>483,066</b>
<b>Total liabilities</b>		<b>505,278</b>	<b>527,912</b>
<b>Net assets</b>		<b>1,006,208</b>	<b>1,017,743</b>
<b>Equity</b>			
Contributed equity	6	515,901	490,713
Reserves		397,552	396,606
Retained earnings		92,755	130,424
<b>Total equity</b>		<b>1,006,208</b>	<b>1,017,743</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 half-year ended 30 September 2017

	NOTE	CONTRIBUTED EQUITY \$000	RESERVES \$000	RETAINED EARNINGS/ (LOSSES) \$000	TOTAL EQUITY \$000
<b>At 1 April 2016</b>		461,213	366,085	58,838	886,136
Profit for the period		-	-	71,586	71,586
Other comprehensive income		-	30,749	-	30,749
<b>Total comprehensive income for the period</b>		-	30,749	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
Cost of share-based payment		-	42	-	42
<b>At 31 March 2017</b>		490,713	396,606	130,424	1,017,743
<b>At 1 April 2017</b>		490,713	396,606	130,424	1,017,743
Loss for the period		-	-	(37,669)	(37,669)
Other comprehensive income		-	783	-	783
<b>Total comprehensive loss for the period</b>		-	783	(37,669)	(36,886)
<b>Transactions with owners in their capacity as owners:</b>					
Issue of share capital, net of transaction costs		30,491	-	-	30,491
Treasury shares acquired		(5,303)	-	-	(5,303)
Cost of share-based payment		-	163	-	163
<b>At 30 September 2017</b>		515,901	397,552	92,755	1,006,208

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



# CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## Consolidated Statement of Cash Flows

For the half-year ended 30 September 2017

	NOTE	6 MONTHS TO 30 SEP 2017 \$000	6 MONTHS TO 30 SEP 2016 \$000
<b>Cash flows from operating activities</b>			
Receipts from customers		175,718	215,189
Payments to suppliers, employees and others		(209,699)	(240,142)
Interest received		105	54
Net operating cash outflow before interest and finance costs		(33,876)	(24,899)
Payment of interest and finance costs		(13,599)	(9,569)
Net cash outflow from operating activities	7	(47,475)	(34,468)
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment and other assets		(9,590)	(8,767)
Proceeds from sale of property, plant and equipment		208	44
Investment in associated entity		(1,858)	(133)
Net cash flows outflow from investing activities		(11,240)	(8,856)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings net of transactions costs		26,874	40,000
Acquisition of treasury shares		(5,303)	-
Net cash inflow from financing activities		21,571	40,000
Net increase/(decrease) in cash		(37,144)	(3,324)
Cash at the beginning of the period		42,533	14,659
Cash at the end of the period		5,389	11,335

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



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017

### 1. Basis of preparation and accounting policies

#### (a) Corporate Information

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

#### (b) Basis of preparation

This general purpose condensed financial report for the half-year ended 30 September 2017 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

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

It is recommended that the half-year financial report be read in conjunction with the financial report for the year ended 31 March 2017 and considered together with any public announcements made by Australian Agricultural Company Limited during the half-year ended 30 September 2017 in accordance with the continuous disclosure obligations of the ASX listing rules.

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

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

Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Management's approach to significant judgements, estimates and assumptions is consistent with that applied for the 31 March 2017 consolidated financial report.

#### Livestock

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

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

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

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

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



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017 (CONTINUED)

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

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

##### Property and Improvements at fair value

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

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

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

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

### 2. Segment reporting

#### Identification of reportable segments

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

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 integrated supply chains.

#### Measurement of performance

Operating EBITDA is the key indicator used to monitor and manage the Company. It eliminates the potential distraction caused by unrealised inventory 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 (lwt) basis and is derived by adjusting statutory EBITDA to substitute the movement in inventory at market value with the movement in inventory at standard cost.



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017 (CONTINUED)

### 2. Segment reporting (continued)

#### Measurement of performance (continued)

A reconciliation of Operating EBITDA to Statutory net (loss)/profit after tax is provided below:

	6 MONTHS TO 30 SEP 2017 \$000	6 MONTHS TO 30 SEP 2016 \$000
Operating EBITDA	16,088	13,853
Difference between the movement of inventory at standard cost versus market value	(52,573)	74,415
Statutory EBITDA	(36,485)	88,268
Depreciation and amortisation	(9,019)	(9,722)
Statutory EBIT	(45,504)	78,546
Finance costs	(8,151)	(10,773)
Income tax benefit/(expense)	15,986	(19,895)
Net (loss)/profit after tax	(37,669)	47,878

### 3. Property, plant and equipment

#### Acquisitions and disposals

During the six months ended 30 September 2017, the Company acquired assets with a cost of \$8.8 million (six months to 30 September 2016: \$7.4 million). No property acquisitions were made during the period.

Assets with a net book value of \$0.04 million were disposed of by the Company during the six months ended 30 September 2017 (six months to 30 September 2016: \$0.2 million). No sales of property were made during the period.

During the six-month period ended 30 September 2017, the Directors reviewed the valuation of freehold land, pastoral leases, buildings and improvements recorded at 30 September 2017 and were of the opinion that there were no material changes to the fair value of property disclosed in the financial statements at 31 March 2017 (six months to 30 September 2016: \$nil).



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017 (CONTINUED)

### 4. Borrowings

	30 SEP 2017 \$000	31 MAR 2017 \$000
<b>Current</b>		
Obligations under finance leases	3,299	3,691
<b>Non-current</b>		
Obligations under finance leases	3,171	3,704
Secured bank loan facility	338,746	311,452
Convertible notes	17,584	47,762
	359,501	362,918

#### Secured bank loan facility

The Company concluded a successful refinancing process in mid-September to expand the debt facilities and extend the maturity out to 5 years. The Company received total commitments of \$500m across multiple banks at improved credit margins. After exploring a range of alternatives, the dual facility structure (\$340m Facility A + \$160m Facility B) was retained as the best use of the underlying asset base. The new facilities and current market conditions have resulted in significantly lower cost of funds and increased financing flexibility going forward. Facility A loans are repayable on 8 September 2022 and Facility B loans are repayable on 8 March 2019. The interest on these facilities is charged at the applicable BBSY rate + Margin. The facility is currently drawn down by \$340.2 million (31 March 2017: \$312.0 million) and is offset in the Statement of Financial Position by a prepaid facility participation fee of \$1.5 million (31 March 2017: \$0.5 million).

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

	30 SEP 2017 \$000	31 MAR 2017 \$000
Total available under Facility A and Facility B	500,000	400,000
Guarantee facility	3,000	3,000
Drawn-down	(341,654)	(313,454)
Unused	161,346	89,546

#### 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 a conversion price of \$1.1486 per share (subject to adjustment mechanisms set out in the Deed Poll), with no price payable on conversion. The number of underlying ordinary shares per convertible note is 434,783, or 69,565,280 ordinary shares for the full convertible notes issued.

The 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.

In April 2017, the AA Trust converted 65 of the Convertible Notes into 28,295,316 fully paid ordinary shares at a conversion price of \$1.1486 per ordinary share. In October 2017, after half year end, the AA Trust converted the remaining 36 Convertible Notes into 15,673,981 fully paid ordinary shares at a conversion price of \$1.1484 per ordinary share. There are no outstanding Convertible Notes on issue under the Deed Poll.



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017 (CONTINUED)

### 5. Derivatives

	30 SEP 2017 \$000	31 MAR 2017 \$000
<b>Current assets</b>		
Interest rate swap contracts	696	-
Forward currency contracts	137	73
	<u>833</u>	<u>73</u>
<b>Current liabilities</b>		
Interest rate swap contracts	-	5,382
Embedded interest rate derivative in convertible note	225	804
	<u>225</u>	<u>6,186</u>

### Fair values

As at 30 September 2017 and 31 March 2017, the only financial instruments recognised at fair value were interest rate swaps, forward currency contracts and the embedded interest rate derivative. These are valued using a level 2 method which estimates fair value using inputs that are observable either directly (as prices) or indirectly (derived from prices). The carrying amount of all other financial assets and liabilities approximates the fair value.

### Forward currency exchange contracts

The Company fair values these contracts by comparing the contracted rate to the market rates for contracts with the same length of maturity. Foreign currency contracts are attributed to forward meat sale agreements. As these contracts are hedge accounted, the effectiveness is assessed in terms of the 80%-125% threshold prescribed by AASB139 with the effective portion of the movement accounted for in Other Comprehensive Income and the ineffective portion posted to profit or loss. Forward currency contracts have maturities between 0 to 12 months. These contracts are in US dollars. The total notional value of these contracts at 30 September 2017 was AUD \$19.4 million (31 March 2017: AUD \$14.3 million).

### Interest rate swap contracts

The Company has entered into interest rate swaps which are economic hedges. The swaps have been designated as effective interest rate swaps and therefore satisfy the accounting standard requirements for hedge accounting. The net fair value gain on interest rate swaps during the six months to 30 September 2017 was \$0.7 million (31 March 2017: loss of \$5.4 million). The Company fair values these contracts by comparing the contracted rate to the future market rates for contracts with the same length of maturity.

As at 30 September 2017, the notional principal amounts and period of expiry of the interest rate swaps are as follows:

	30 SEP 2017 \$000	31 MAR 2017 \$000
0-1 years	-	-
1-5 years	200,000	200,000



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017 (CONTINUED)

### 6. Equity securities issued

#### 30 September 2017

On 1 August 2017 the Company issued 87,037 shares under the AACo performance rights plan for nil consideration. On 20 April 2017, the AA Trust converted 65 of the remaining 101 Convertible Notes into 28,295,316 fully paid ordinary shares.

#### 30 September 2016

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

#### Dividends

No dividend was declared or paid during the six months to 30 September 2017 (six months to 30 September 2016: \$nil).



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017 (CONTINUED)

### 7. Cash flow statement reconciliation

#### Reconciliation of net profit/(loss) after tax to net cash flows from operations

	6 MONTHS TO 30 SEP 2017 \$000	6 MONTHS TO 30 SEP 2016 \$000
Net (loss)/profit after income tax	(37,669)	47,878
<i>Adjustments for:</i>		
Depreciation and amortisation	9,019	9,722
Gain on sale of property, plant and equipment	(208)	(44)
Amortisation of borrowing costs	875	1,171
Non-cash share based payment expense	163	28
(Increment)/decrement in fair value of livestock	9,412	(115,881)
<i>Changes in assets and liabilities:</i>		
(Increase)/decrease in inventories	1,610	5,418
(Increase)/decrease in trade and other receivables	(10,950)	(3,014)
(Increase)/decrease in prepayments and other assets	(784)	(618)
(Decrease)/increase in deferred tax liabilities	(16,126)	19,895
(Decrease)/increase in trade and other payables	902	(599)
(Decrease)/increase in derivatives	(4,116)	(167)
(Decrease)/increase in provisions	397	1,743
Net outflow from operating activities	(47,475)	(34,468)

### 8. Commitments

#### Capital commitments

Capital expenditure had been contracted in respect of property, plant and equipment for \$1.2 million as at 30 September 2017 (31 March 2017: \$2.9 million).

#### Other commitments

Forward purchase contracts had been entered into for \$16.7 million worth of grain commodities and \$33.0 million worth of cattle as at 30 September 2017 (31 March 2017: \$14.1 million worth of grain and \$42.8 million worth of cattle). The contracts are expected to be settled within 12 months from balance date.



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017 (CONTINUED)

### 9. Related party disclosures

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 a conversion price of \$1.1486 per ordinary AACo share (subject to adjustment mechanisms set out in the Deed Poll), with no price payable on conversion. In April 2017, the AA Trust converted 65 of the Convertible Notes into 28,295,316 fully paid ordinary shares at a conversion price of \$1.1486 per ordinary share. In October 2017, after half year end, the AA Trust converted the remaining 36 Convertible Notes into 15,673,981 fully paid ordinary shares at a conversion price of \$1.1484 per ordinary share. There are no outstanding Convertible Notes on issue under the Deed Poll.

The interest paid during the 6 months to 30 September 2017 amounted to \$0.9m (30 September 2016: \$1.3m).

### 10. Events after the balance sheet date

The Company received a conversion notice in relation to the subordinated convertible notes maturing on 30 September 2023 issued by the Company on the terms set out in the AACo Subordinated Notes Deed Poll dated 16 October 2013. On 20 October 2017 the Company announced that the current noteholder, the AA Trust had exercised its right under the Deed Poll to convert the remaining 36 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 36 Convertible Notes is \$1.1484 per ordinary share (which has been calculated in accordance with the adjustment mechanisms set out in the Deed Poll). On 30 October 2017 a total of 15,673,981 ordinary shares were issued to the AA Trust on conversion. There are no outstanding Convertible Notes on issue under the Deed Poll.



# DIRECTORS' DECLARATION

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

In the opinion of the Directors:

- (a) The condensed consolidated financial statements and notes set out on pages 12 to 24 are in accordance with the *Corporations Act 2001*, including:
  - (i) Giving a true and fair view of the Group's financial position as at 30 September 2017 and its performance for the half-year ended on that date;
  - (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



D. McGauchie AO  
Chairman

Sydney  
15 November 2017



# INDEPENDENT AUDITOR'S REVIEW REPORT



## Independent Auditor's Review Report

To the shareholders of Australian Agricultural Company Limited

### Report on the Half-year Financial Report

#### Conclusion

We have reviewed the accompanying **Half-year Financial Report** of Australian Agricultural Company Limited.

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

- giving a true and fair view of the **Group's** financial position as at 30 September 2017 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Half-year Financial Report** comprises:

- consolidated statement of financial position as at 30 September 2017;
- consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the Half-year ended on that date;
- notes 1 to 10 comprising a summary of significant accounting policies and other explanatory information; and
- the Directors' Declaration.

The **Group** comprises Australian Agricultural Company Limited (the Company) and the entities it controlled at the Half-year's end or from time to time during the Half-year.



# INDEPENDENT AUDITOR'S REVIEW REPORT



## Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- for such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that is free from material misstatement, whether due to fraud or error.

## Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 September 2017 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Australian Agricultural Company Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

  
KPMG



Simon Crane  
Partner

Brisbane  
15 November 2017



# 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