



**Australian Agricultural Company Limited**

**ABN 15 010 892 270**

## **FINANCIAL REPORT**

**For the half-year ended  
30 September 2019**

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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 2019 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 2019.

## 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)

Hugh Killen (Managing Director)

Stuart Black AM (Non-executive Director)

David Crombie AM (Non-executive Director) Resigned 30 July 2019

Tom Keene (Non-executive Director)

Dr Shehan Dissanayake (Executive Director)

Anthony Abraham (Non-executive Director)

Neil Reisman (Non-executive Director)

Jessica Rudd (Non-executive Director)

Marc Blazer (Non-executive Director) Appointed 31 July 2019

## 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 distributes branded beef to a range of customers across the world, tailoring its route-to-market model by country to capitalise on regional opportunities. The Company is large enough to obtain production efficiencies but small enough to target key markets and customers.

### Key Financial Indicators Used by Management

The following table summarises financial indicators used by management to monitor and manage the Company. Operating Profit is one of the key performance metrics of the Company, as it is a better reflection of actual financial performance under the control of management. It 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 livestock at market value with the movement at cost of production. Management therefore believe that external stakeholders benefit from this metric being reported. Operating Profit is unaudited, non-IFRS financial information. Discussion on drivers of movements in key financial indicators are included in the Sales & Marketing, Production and Statutory Financial Results sections below.

	6 MONTHS TO 30 SEP 2019 \$'000	6 MONTHS TO 30 SEP 2018 \$'000 Restated*
Meat sales	105,765	146,426
Cattle sales	76,983	72,771
Administration and selling costs	(17,399)	(20,320)
Operating Profit	6,337	24,841
Statutory EBITDA loss	(3,385)	(82,886)
Statutory EBIT loss	(11,769)	(88,730)
Net loss after tax	(14,122)	(68,396)
Net cash inflow from operating activities	11,020	29,644

\* Previously disclosed amounts for administration and selling costs have been restated, to account for meat sales freight previously included in cost of meat sold.

# DIRECTORS' REPORT

## OPERATING AND FINANCIAL REVIEW (continued)

### Key Financial Indicators Used by Management (continued)

Statutory EBITDA was a loss of \$3.4 million in H1FY20 (\$82.9 million loss in H1FY19), while Operating Profit was \$6.3 million (\$24.8 million profit in H1FY19). Operating Profit/Loss does not include unrealised livestock gains or losses, while Statutory EBITDA does include these.

This report is the first set of financial statements in which AASB 16 Leases has been applied by the Company. Under the transition method chosen, comparative information has not been restated, with the cumulative impact of adoption recognised as an improvement to the opening balance of retained earnings at 1 April 2019. The 30 September 2019 results are therefore not directly comparable with prior periods. Changes to significant accounting policies and the impact of applying this new standard are described in Note 1 (c) and Note 4.

### Sales and Marketing

Wagyu beef average pricing per kilogram has increased 5.7% on the prior comparative period, and 4.2% on average prices for the year ended 31 March 2019. Improvements are a combination of price, mix and exchange rate factors. The Company has continued to execute its branded beef strategy, selling into strategic markets and building brand presence. Non-Wagyu and Livingstone Beef sales have not occurred during H1FY20 due to the decision to suspend the 1824 brand and Livingstone operations in H1FY19.

	6 MONTHS TO 30 SEP 2019	6 MONTHS TO 30 SEP 2018
Wagyu beef revenue – \$ mil	102.8	93.9
Wagyu beef kgs sold – mil kg CW <sup>(1)</sup>	7.4	7.1
Wagyu beef sold – \$/kg CW	13.91	13.16
Non-Wagyu beef revenue – \$ mil	-	21.3
Non-Wagyu beef kgs sold – mil kg CW	-	2.1
Non-Wagyu beef sold – \$/kg CW	-	10.29
Livingstone beef revenue – \$ mil	-	27.8
Livingstone beef kgs sold – mil kg CW	-	5.0
Livingstone beef sold – \$/kg CW	-	5.59
Cattle sales – mil kg LW <sup>(1)</sup>	26.6	30.4
Cattle revenue – \$mil	77.0	72.8

<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 of cattle grown throughout the breeding, backgrounding and feedlot operations of the Company during the period, excluding the offsetting impact of attrition kilograms. Kilograms produced has reduced 26% on the previous corresponding period, due to strategic destocking, with increased cattle sales and reduced cattle purchases in response to adverse seasonal conditions.

Cost of production is a measure of the operating costs incurred to produce a kilogram of live weight of cattle throughout the breeding, backgrounding and feedlot operations of the Company during the period. The cost of production increased by 47% on the previous corresponding period, which is a reflection of drought conditions increasing feeding and transport costs, as well as a shift to a greater proportion of Wagyu production.

	6 MONTHS TO 30 SEP 2019	6 MONTHS TO 30 SEP 2018 Restated*
Kilograms produced – mil Kg LW	34.5	46.6
Cost of production – \$/kg LW	3.29	2.24

\* Kilograms produced and Cost of production have been restated to exclude the offsetting impact of attrition kilograms in the prior comparative period.

# DIRECTORS' REPORT

## OPERATING AND FINANCIAL REVIEW (continued)

### Statutory Financial Results

The H1FY20 results include a Statutory EBITDA loss of \$3.4 million (H1FY19 loss of \$82.9 million), driven by increased operating costs due to adverse seasonal conditions. This result includes a \$22.6 million non-cash increase in livestock due to unrealised market value movements (H1FY19 decrease of \$62.4 million due to unrealised non-cash market value movements).

Operating cash inflows of \$11.0 million were achieved in H1FY20 compared with operating cash inflows of \$29.6 million in H1FY19, predominately due to the prior comparative period including receipts from the sale of Livingstone and 1824 beef. Both supply chains were suspended during H1FY19.

The Livingstone Beef facility continues to be maintained in a suspended state following suspension of operations in July 2018. The accumulated impairment recognised at 31 March 2018 remains unchanged. The Board and management continue to monitor various strategic options for the future of the Livingstone Beef operations.

### Reconciliation of Operating Profit to Statutory Profit

Operating Profit is the key indicator used to monitor and manage the Company. It eliminates the potential distraction caused by unrealised livestock and inventory valuation adjustments being recorded in the financial results, and is a better reflection of actual financial performance under the control of management. Operating Profit assumes movement in livestock and inventory volume at cost of production, whilst Statutory EBITDA results include revaluations based on market prices for livestock movements.

A reconciliation of Operating Profit to Statutory EBITDA and Net Loss After Tax is provided below:

	6 MONTHS TO 30 SEP 2019 \$'000	6 MONTHS TO 30 SEP 2018 \$'000
Operating Profit	6,337	24,841
Reverse: Movement in livestock and inventory at cost of production	7,155	3,391
Other income/expenses	(1,653)	2,471
Change in livestock value	(15,224)	(113,589)
<b>Statutory EBITDA<sup>(1)</sup> loss</b>	<b>(3,385)</b>	<b>(82,886)</b>
Depreciation and amortisation	(8,406)	(6,024)
Gain on equity investments	22	180
<b>Statutory EBIT loss</b>	<b>(11,769)</b>	<b>(88,730)</b>
Finance costs	(7,356)	(8,639)
Income tax benefit	5,003	28,973
<b>Net loss after tax</b>	<b>(14,122)</b>	<b>(68,396)</b>

<sup>(1)</sup> EBITDA is defined by the Company as earnings before interest, tax, depreciation, amortisation, impairment, gains/losses on equity investments and changes in the fair value of property.

# DIRECTORS' REPORT

## OPERATING AND FINANCIAL REVIEW (continued)

### Capital Structure

Due to the implementation of AASB 16 Leases, lease liabilities have increased by \$33.6m. The Company's target gearing ratio is between 20.0% to 35.0%, prior to impact of adoption of AASB 16.

	30 SEP 2019 \$'000	31 MAR 2019 \$'000
Current debt		
Obligations under finance leases	1,758	1,658
Lease liabilities	5,516	-
Non-current debt		
Obligations under finance leases	3,144	2,782
Lease liabilities	28,035	-
Bank loan facility <sup>(1)</sup>	367,700	362,700
Bank guarantees	1,454	1,454
Cash	(8,989)	(7,565)
<b>Net debt</b>	<b>398,618</b>	<b>361,029</b>
<b>Equity employed</b>	<b>827,434</b>	<b>843,660</b>
<b>Total capital employed</b>	<b>1,226,052</b>	<b>1,204,689</b>
<b>Gearing (net debt / net debt + equity)</b>	<b>32.5%</b>	<b>30.0%</b>
Gearing (net debt / net debt + equity) pre AASB 16 adoption	30.6%	30.0%

<sup>(1)</sup> The gearing ratio is calculated utilising the drawn-down balance of the bank loan facility. This is not offset by \$0.9 million of prepaid borrowing costs.

### Net Tangible Assets

The Company's net tangible assets per share was \$1.37 as at 30 September 2019, compared to \$1.42 as at 31 March 2019. 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 2019, 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 the Directors will review dividend policy and payments on a return to sustainable and significant operating profit and positive operational cash flows.

### Risk Management

AACo has been, and will continue to be, exposed to a range of interrelated risks. As a branded premium food business, the effective understanding and management of risk requires the Company to consider risks from a supply chain perspective. By focussing on key supply chain considerations in all strategic and operational planning and management processes, this ensures the Company can achieve its sustainability, profitability, growth and stakeholder objectives. The Company believes effective risk management provides a strategic advantage, allowing it to sustain and create value across the organisation.

### 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. Business strategy will focus on optimising supply chains, implementing a differentiated branding strategy, and investing in innovation and technology.

# DIRECTORS' REPORT

## SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

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

## AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 8 and forms part of the directors' report for the period ended 30 September 2019.

## 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.



D. McGauchie AO  
Chairman

Brisbane  
20 November 2019



Hugh Killen  
Managing Director, CEO

Brisbane  
20 November 2019

# AUDITOR'S INDEPENDENCE DECLARATION

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 review of Australian Agricultural Company Limited for the half-year ended 30 September 2019 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  
20 November 2019

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Liability limited by a scheme approved under Professional Standards Legislation.



# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Income Statement

For the half-year ended 30 September 2019

	6 MONTHS TO 30 SEP 2019 \$'000	6 MONTHS TO 30 SEP 2018 \$'000 Restated*
Meat sales	105,765	146,426
Cattle sales	76,983	72,771
	182,748	219,197
Cattle fair value adjustments	129,211	43,960
	311,959	263,157
Cost of meat sold	(101,587)	(130,432)
Deemed cost of cattle sold	(72,790)	(66,076)
Cattle and feedlot expenses	(83,997)	(79,893)
<b>Gross margin</b>	<b>53,585</b>	<b>(13,244)</b>
Other income	2,097	983
Employee expenses	(25,114)	(31,552)
Administration and selling costs	(17,399)	(20,320)
Other operating costs	(14,768)	(15,479)
Property costs	(1,786)	(3,274)
Gain on equity investments	22	180
Depreciation and amortisation	(8,406)	(6,024)
<b>Loss before finance costs and income tax</b>	<b>(11,769)</b>	<b>(88,730)</b>
Finance costs	(7,356)	(8,639)
<b>Loss before income tax</b>	<b>(19,125)</b>	<b>(97,369)</b>
Income tax benefit	5,003	28,973
<b>Net loss after tax</b>	<b>(14,122)</b>	<b>(68,396)</b>
<b>LOSS PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE PARENT</b>	<b>CENTS</b>	<b>CENTS</b>
Basic loss per share	(2.39)	(11.45)
Diluted loss per share	(2.39)	(11.45)

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

\* Refer to note 1 (d) regarding restated comparative figures.

# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Statement of Comprehensive Income

For the half-year ended 30 September 2019

	6 MONTHS TO 30 SEP 2019 \$'000	6 MONTHS TO 30 SEP 2018 \$'000
Loss for the period	(14,122)	(68,396)
<b>Other comprehensive loss</b>		
Items that may be reclassified subsequently to profit or loss:		
Changes in the fair value of cash flow hedges, net of tax	(2,763)	(1,023)
<b>Other comprehensive loss for the period, net of tax</b>	(2,763)	(1,023)
<b>Total comprehensive loss for the period, net of tax</b>	<b>(16,885)</b>	<b>(69,419)</b>

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

# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Statement of Financial Position

As at 30 September 2019

	NOTE	AS AT 30 SEP 2019 \$'000	AS AT 31 MAR 2019 \$'000
<b>Current assets</b>			
Cash and cash equivalents		8,989	7,565
Trade and other receivables		20,111	18,661
Inventories and consumables		31,334	33,684
Livestock		192,398	171,006
Derivatives	6	3	-
Other assets		857	1,099
<b>Total current assets</b>		<b>253,692</b>	<b>232,015</b>
<b>Non-current assets</b>			
Livestock		215,715	252,331
Property, plant and equipment	3	802,678	795,341
Intangible assets		2,264	2,534
Right-of-use assets	4	33,513	-
Investments		3,706	3,535
Other assets		869	820
<b>Total non-current assets</b>		<b>1,058,745</b>	<b>1,054,561</b>
<b>Total assets</b>		<b>1,312,437</b>	<b>1,286,576</b>
<b>Current liabilities</b>			
Trade and other payables		35,774	29,818
Provisions		3,675	3,397
Borrowings	5	1,758	1,658
Lease liabilities	4	5,516	-
Derivatives	6	12,550	8,319
<b>Total current liabilities</b>		<b>59,273</b>	<b>43,192</b>
<b>Non-current liabilities</b>			
Provisions		3,011	4,578
Borrowings	5	369,930	364,414
Lease liabilities	4	28,035	-
Deferred tax liabilities		24,754	30,732
<b>Total non-current liabilities</b>		<b>425,730</b>	<b>399,724</b>
<b>Total liabilities</b>		<b>485,003</b>	<b>442,916</b>
<b>Net assets</b>		<b>827,434</b>	<b>843,660</b>
<b>Equity</b>			
Contributed equity		528,822	528,822
Reserves		432,569	435,369
(Accumulated losses)/retained earnings		(133,957)	(120,531)
<b>Total equity</b>		<b>827,434</b>	<b>843,660</b>

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

# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Statement of Changes in Equity

For the half-year ended 30 September 2019

	CONTRIBUTED EQUITY \$'000	RESERVES \$'000	(ACCUMULATED LOSSES)/RETAINED EARNINGS \$'000	TOTAL EQUITY \$'000
<b>At 1 April 2018</b>	531,937	417,718	27,865	977,520
Loss for the period	-	-	(68,396)	(68,396)
Other comprehensive income	-	(1,023)	-	(1,023)
<b>Total comprehensive loss for the period</b>	-	(1,023)	(68,396)	(69,419)
<b>Transactions with owners in their capacity as owners:</b>				
Treasury shares acquired	(3,115)	-	-	(3,115)
Cost of share-based payments	-	219	-	219
<b>At 30 September 2018</b>	528,822	416,914	(40,531)	905,205
<b>At 1 April 2019</b>	528,822	435,369	(120,531)	843,660
Adjustment to opening retained earnings for AASB 16 adoption (Note 4)			696	696
Adjusted opening balances	528,822	435,369	(119,835)	844,356
Loss for the period	-	-	(14,122)	(14,122)
Other comprehensive loss	-	(2,763)	-	(2,763)
<b>Total comprehensive loss for the period</b>	-	(2,763)	(14,122)	(16,885)
<b>Transactions with owners in their capacity as owners:</b>				
Treasury shares acquired	-	-	-	-
Revaluation of foreign currency operations		(140)	-	(140)
Cost of share-based payments	-	103	-	103
<b>At 30 September 2019</b>	528,822	432,569	(133,957)	827,434

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

# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Statement of Cash Flows

For the half-year ended 30 September 2019

	6 MONTHS TO 30 SEP 2019 \$'000	6 MONTHS TO 30 SEP 2018 \$'000
<b>Cash flows from operating activities</b>		
Receipts from customers	193,541	233,110
Payments to suppliers, employees and others	(175,172)	(196,752)
Interest received	44	64
Net operating cash inflow before interest and finance costs	18,413	36,422
Payment of interest and finance costs	(7,393)	(6,778)
Net cash inflow from operating activities	11,020	29,644
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment and other assets	(12,065)	(11,983)
Proceeds from sale of property, plant and equipment	470	230
Investments in associates	(148)	(487)
Net cash outflow from investing activities	(11,743)	(12,240)
<b>Cash flows from financing activities</b>		
Proceeds from borrowings net of transactions costs	17,000	5,000
Repayments of borrowings net of transactions costs	(12,000)	(24,500)
Acquisition of treasury shares	-	(3,115)
Principal repayments of leases	(2,853)	-
Net cash inflow/(outflow) from financing activities	2,147	(22,615)
Net increase/(decrease) in cash	1,424	(5,211)
Cash at the beginning of the period	7,565	11,218
Cash at the end of the period	8,989	6,007

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 2019

### 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).

The interim financial statements for the period ended 30 September 2019 were authorised for issue in accordance with a resolution of the Directors on 20 November 2019.

#### b) Basis of preparation

This general purpose condensed financial report for the half-year ended 30 September 2019 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 year 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 2019 and considered together with any public announcements made by Australian Agricultural Company Limited during the half-year ended 30 September 2019, in accordance with the continuous disclosure obligations of the ASX listing rules.

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and in accordance with the legislative instrument, amounts in the interim financial statements have been rounded off to the nearest thousand dollars, unless otherwise stated.

#### c) New accounting standards and interpretations

##### i) New and amended standards adopted

###### > AASB 16 Leases adoption

AASB 16 introduced a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

AASB 16 replaces existing leases guidance, including AASB 117 *Leases*, AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*, AASB Interpretation-115 *Operating Leases-Incentives* and AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

##### **Leases in which the Company is a lessee**

From 1 April 2019, the Company has recognised new assets and liabilities for its operating leases of land, buildings and equipment. The nature of expenses related to these leases has also changed, as under AASB 16 *Leases* the Company recognises a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expenses on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent there was a timing difference between actual lease payments and the expense recognised.

The Company has adopted AASB 16 using a modified retrospective approach from 1 April 2019. Therefore, the cumulative effect of adopting AASB 16 has been recognised as an adjustment to the opening balance of retained earnings at 1 April 2019, with no restatement of comparative information as permitted under the specific transitional provisions in the standard. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 April 2019, and for leases entered into following this, the incremental borrowing rate at the commencement date of the lease arrangement. The average incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 3.91%.

Refer to Note 4 for further details.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2019

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

#### c) New accounting standards and interpretations (continued)

##### *i) New and amended standards adopted (continued)*

- > AASB 16 Leases accounting policy

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is presented in investment property.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group's incremental borrowing rate is used as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Judgement has been used to determine the lease term for some lease contracts in which it is a lessee, that include renewal options. The assessment of whether it is reasonably certain the Company will exercise such options impacts the lease term, which can significantly affect the amount of lease liabilities and right-of-use assets recognised.

#### d) Restatement of prior period disclosures

The consolidated financial statements include restatements to previously disclosed amounts, where indicated, which represent reclassifications to more accurately align reported amounts with business activities. Previously disclosed amounts for administration and selling costs of \$4.5 million have been restated to account for meat sales freight previously included in cost of meat sold. Previously disclosed other income amounts of \$6.0 million have been restated to cattle expenses for fair value gains on crops grown and used internally.

#### e) Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires judgements, estimates and assumptions to be made that affect the reported amounts in the financial statements. Judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses are continually evaluated. Judgements and estimates are based on historical experience and on other various factors considered 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 2019 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 access to different markets exists, 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 one of the following are used, 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.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2019

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

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

##### Livestock (continued)

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

Consistent with previous reporting periods, at 30 September 2019 cattle have been valued using level 2 and level 3 fair value price inputs as defined by AASB 13 *Fair Value Measurement*.

##### Pastoral property and improvements at fair value

Freehold pastoral property and improvements and pastoral property and improvements held under statutory leases with government bodies, are carried at 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.

Pastoral landholdings are generally held under a leasehold agreement with the Crown. Leasehold properties in Queensland are mainly pastoral holdings which are rolling term leases. In the Northern Territory, the pastoral leases held have been granted on a perpetual basis by the Northern Territory Government. We treat statutory leases held with government bodies as perpetual leases. Perpetual leases are specifically excluded from measurement under AASB 16 *Leases*.

##### Property, Plant and Equipment at cost

Plant and equipment and industrial property and improvements are stated at historical cost less accumulated depreciation and any accumulated impairment losses. We review the carrying values of plant and equipment and industrial property and improvements for impairment when events or changes in circumstances indicate the current carrying value may not be recoverable.

The Livingstone Beef CGU is the only location with property and improvements measured under the cost model by the Company per AASB 116 *Property, Plant and Equipment*. Under the requirements of AASB 136 *Impairment of Assets*, at each reporting period an assessment of internal and external factors must be made to determine whether there are indicators of impairment. Where indicators exist, a formal estimate of the recoverable amount of these assets is undertaken.

During H1FY20 operations continue to be suspended at Livingstone Beef. Management have recalculated the recoverable amount of the CGU based on the updated conditions, using Level 3 fair value inputs per AASB 13 *Fair Value Measurement*. The recoverable amount was materially consistent with the current carrying value of the CGU and as such no adjustment was made to the carrying value of Livingstone Beef at 30 September 2019.

The calculation of the recoverable amount for Livingstone Beef requires management to make key estimates with relation to a number of assumptions that are inherently uncertain. The recoverable amount is sensitive to changes in these key assumptions and accordingly the estimate of the recoverable amount could change in future reporting periods.



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2019

### 2. 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. The Group has identified its operating segments based on the internal reports that are reviewed and used by the Managing Director/Chief Executive Officer (the chief operating decision maker) in assessing performance and in determining the allocation of resources. The operating segments are identified by management based on the nature of the product produced and the reporting structure within the Group. Discrete financial information for each of the operating segments is reported to the Managing Director/Chief Executive Officer (MD/CEO) on at least a monthly basis.

#### Reportable segments

Under the internal reporting framework, the financial results of the Livingstone processing plant are disclosed in monthly management reports separately from the rest of the Company. This results in the following operating segments:

- > Livingstone Beef processing plant; and
- > AACo excluding Livingstone.

To get to a final segment result, the above two segment results include a corporate overheads expense allocation.

#### Accounting policies and inter-segment transactions

The accounting policies used in reporting segments are the same as those contained in the financial statements, except as follows:

- > Inter-entity sales

Inter-entity sales are recognised based on arm's length market prices.

Operating Profit is the key indicator used to monitor and manage the Company. It eliminates the potential distraction caused by unrealised livestock and inventory valuation adjustments being recorded in the financial results, and is a better reflection of actual financial performance under the control of management. Operating Profit assumes movement in livestock and inventory volume at cost of production, whilst Statutory EBITDA results include revaluations based on market prices for livestock movements.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2019

### 2. Segment information (continued)

The following table presents the revenue and profit information regarding operating segments (incorporating a reconciliation of Operating Profit to Statutory NPAT) for the six months to 30 September 2019 and 30 September 2018.

30 SEP 2019	AACO EX LIVINGSTONE \$'000	LIVINGSTONE BEEF \$'000	ELIMINATIONS \$'000	TOTAL \$'000
Segment revenue	182,748	-	-	182,748
Inter-segment revenue	-	-	-	-
Revenue from external customers	182,748	-	-	182,748
<b>Operating profit/(loss)</b>	<b>9,404</b>	<b>(3,067)</b>	<b>-</b>	<b>6,337</b>
Reverse: Movement in inventory at cost of production	7,155	-	-	7,155
Other income/expenses	(1,679)	26	-	(1,653)
Change in livestock value	(15,224)	-	-	(15,224)
<b>Statutory EBITDA loss</b>	<b>(344)</b>	<b>(3,041)</b>	<b>-</b>	<b>(3,385)</b>
Depreciation and amortisation	(7,984)	(422)	-	(8,406)
Gain on equity investments	22	-	-	22
<b>Statutory EBIT loss</b>	<b>(8,306)</b>	<b>(3,463)</b>	<b>-</b>	<b>(11,769)</b>
Net finance costs				(7,356)
Income tax benefit				5,003
<b>Net loss after tax</b>				<b>(14,122)</b>

30 SEP 2018	AACO EX LIVINGSTONE \$'000	LIVINGSTONE BEEF \$'000	ELIMINATIONS \$'000	TOTAL \$'000
Segment revenue	204,368	31,171	(16,342)	219,197
Inter-segment revenue	(16,342)	-	16,342	-
Revenue from external customers	188,026	31,171	-	219,197
<b>Operating profit/(loss)</b>	<b>34,555</b>	<b>(9,714)</b>	<b>-</b>	<b>24,841</b>
Reverse: Movement in inventory at cost of production	1,914	1,477	-	3,391
Other income/expenses	2,329	142	-	2,471
Change in livestock value	(119,494)	5,905	-	(113,589)
<b>Statutory EBITDA loss</b>	<b>(80,696)</b>	<b>(2,190)</b>	<b>-</b>	<b>(82,886)</b>
Depreciation and amortisation	(5,286)	(738)	-	(6,024)
Gain on equity investments	180	-	-	180
<b>Statutory EBIT loss</b>	<b>(85,802)</b>	<b>(2,928)</b>	<b>-</b>	<b>(88,730)</b>
Net finance costs				(8,639)
Income tax benefit				28,973
<b>Net loss after tax</b>				<b>(68,396)</b>

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2019

### 3. Property, plant and equipment

#### Acquisitions and disposals

During the six months ended 30 September 2019, the Company acquired assets with a cost of \$12.1 million (six months to 30 September 2018: \$11.4 million).

Assets with a net book value of \$0.38 million were disposed of by the Company during the six months ended 30 September 2019 (six months to 30 September 2018: \$0.01 million).

### 4. Right-of-use assets and lease liabilities

Due to the adoption of AASB 16 Leases from 1 April 2019, the Company has recognised leases previously classified as operating leases on the balance sheet, and new leases entered into have been measured and disclosed in line with AASB 16. The associated balances due to adoption and application of this standard during the period are shown below. When measuring liabilities for leases that were previously classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 April 2019. The average rate applied is 3.91%.

	1 APR 2019 \$'000	30 SEP 2019 \$'000
<b>Right-of-use assets</b>		
Non-current	14,005	33,513
<b>Lease liabilities</b>		
Current	3,865	5,516
Non-current	10,140	28,035

Right-of-use assets relate to buildings and property leased by the Company from third parties, excluding Pastoral property statutory leases held with government bodies. During the period the Company entered into a 10-year lease of Rewan, a central Queensland cattle property.

The Company has elected to expense short-term and low value leases on a straight-line basis over the lease term, as permitted under the recognition exemptions of AASB 16. The amount expensed during the period relating to short-term and low value lease assets was \$0.4 million.

The Company has adopted AASB 16 using a modified retrospective approach from 1 April 2019. Therefore, the cumulative effect of adopting AASB 16 has been recognised as an improvement to the opening balance of retained earnings at 1 April 2019, as shown in the Statement of Changes in Equity, for \$0.7 million.

### 5. Borrowings

	30 SEP 2019 \$'000	31 MAR 2019 \$'000
<b>Current</b>		
Obligations under finance leases	1,758	1,658
<b>Non-current</b>		
Obligations under finance leases	3,144	2,782
Secured bank loan facility	366,786	361,632
	<u>369,930</u>	<u>364,414</u>

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2019

### 5. Borrowings (continued)

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). The following financing facilities are available:

	30 SEP 2019 \$'000	31 MAR 2019 \$'000
Total available under Facility A and Facility B	500,000	500,000
Guarantee facility	3,000	3,000
Drawn-down (including bank guarantees)	(369,154)	(364,154)
Unused	133,846	138,846

### 6. Derivatives

	30 SEP 2019 \$'000	31 MAR 2019 \$'000
<b>Current assets</b>		
Foreign currency contracts	3	-
<b>Current liabilities</b>		
Interest rate swap contracts	11,128	6,884
Foreign currency contracts	1,422	1,435
	12,550	8,319

### Fair values

As at 30 September 2019 and 31 March 2019, the only financial instruments recognised at fair value were interest rate swaps and forward currency contracts. These are valued using a level 2 fair value price input method as defined by AASB 13 *Fair Value Measurement*, 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

Foreign currency contracts are attributed to forecast meat sales. As these contracts are hedge accounted, the effectiveness has been assessed in terms of AASB 9 *Financial Instruments* from 1 April 2018 due to the Company's decision to adopt AASB 9 rather than electing to continue applying AASB 139 *Financial Instruments*. The effective portion of the movement is accounted for in Other Comprehensive Income and the ineffective portion posted to the income statement. Forward currency contracts can have maturities of up to 36 months. These contracts are in US dollars. The total notional value of these contracts at 30 September 2019 was AUD \$37.5 million (31 March 2019: AUD \$48.4 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 under AASB 139 *Financial Instruments*. The net fair value loss on interest rate swaps during the six months to 30 September 2019 was \$11.1 million (31 March 2019: loss of \$6.9 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.

The notional principal amounts and period of expiry of the interest rate swaps are as follows:

	30 SEP 2019 \$'000	31 MAR 2019 \$'000
0-1 years	-	-
1-5 years	235,000	235,000

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2019

### 7. Equity securities issued

#### 30 September 2019

No shares were issued under the AACo performance rights plan during six months to 30 September 2019.

#### 30 September 2018

No shares were issued under the AACo performance rights plan during six months to 30 September 2018.

#### Dividends

No dividend was declared or paid during the six months to 30 September 2019 (six months to 30 September 2018: \$nil).

### 8. Commitments

#### Capital commitments

No capital expenditure has been contractually committed to in respect of property, plant and equipment as at 30 September 2019 (31 March 2018: \$0.5 million).

#### Other commitments

Forward purchase contracts have been entered into for \$8.9 million worth of grain commodities and \$9.8 million worth of cattle as at 30 September 2019 (31 March 2019: \$19.3 million worth of grain and \$15.8 million worth of cattle). The contracts are expected to be settled within 12 months from balance date.

### 9. Related party disclosures

Transactions with related parties during the six-month period to 30 September 2019 and 30 September 2018 are immaterial, and the nature of these transactions remains unchanged from those disclosed in the 31 March 2019 Annual Report.

### 10. Events after the balance sheet date

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

# 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 9 to 21 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 2019 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

Brisbane

20 November 2019

# 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 2019 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 2019;
- 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.

#### 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*; and
- 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.

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.

# INDEPENDENT AUDITOR'S REVIEW REPORT



## 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 2019 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  
20 November 2019



# COMPANY INFORMATION

## Name of Entity

**Australian Agricultural Company Limited**

## ABN

15 010 892 270

## 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

Level 21, 10 Eagle 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.

## Solicitors

### Allens Linklaters

Level 26, 480 Queen Street  
Brisbane QLD 4000

## Auditors

### KPMG

Level 16, 71 Eagle Street  
Brisbane QLD 4000