Australian Agricultural Company Limited

ABN 15 010 892 270

FINANCIAL REPORT

For the half-year ended
30 September 2022

CONTENTS

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 2022 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 2022.

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) (Resigned 21 June 2022)

David Harris (Managing Director) (Appointed 27 September 2022)

Stuart Black AM (Non-executive Director)

Tom Keene (Non-executive Director) (Retired 23 October 2022)

Dr Shehan Dissanayake (Non-executive Director)

Anthony Abraham (Non-executive Director)

Neil Reisman(1) (Non-executive Director)

Jessica Rudd (Non-executive Director)

Marc Blazer (Non-executive Director)

Sarah Gentry(2) (Non-executive Director) (Appointed 24 October 2022)

(1) On 16 November 2022 Mr Reisman was assessed to be an independent director.
(2) Ms Gentry was assessed to be a non-independent director on her appointment on 24 October 2022, as she is an officer of Tavistock Group which controls the AA Trust, a major 50.07% shareholder of the Company.

OPERATING AND FINANCIAL REVIEW

About AACo

Australian Agricultural Company Limited (AACo) is an Australian beef company with a heritage dating back to 1824. AACo is one of Australia's largest integrated cattle and beef producers, 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 a key measure of profitability used to monitor and manage the Company, which removes unrealised livestock mark-to-market fluctuations from the Statutory Profit result, and measures cost of goods sold using production costs rather than fair value. Management therefore believe that external stakeholders benefit from this metric being reported.

The table below includes results which are unaudited, non-IFRS financial information: Operating Profit, Statutory EBIT and Statutory EBITDA. 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 2022 $'000	6 MONTHS TO 30 SEP 2021 $'000
Meat sales	122,325	102,934
Cattle sales	41,416	40,533
Operating Profit	38,259	29,979
Statutory EBITDA	92,258	136,991
Statutory EBIT	80,770	127,286
Net profit after tax	51,567	83,218
Net cash inflow from operating activities	3,410	17,340

OPERATING AND FINANCIAL REVIEW (continued)

Sales and Marketing

Wagyu beef pricing per kilogram has increased 25.9% on the prior comparative period. Improvements in pricing are a combination of in-market optimisation, mix and exchange rate factors. The Company has continued to execute its branded beef strategy, selling into strategic markets and building brand presence.

	6 MONTHS TO 30 SEP 2022	6 MONTHS TO 30 SEP 2021
Wagyu beef revenue – $ mil	120.2	100.5
Wagyu beef kgs sold – mil kg CW[1]	5.4	5.7
Wagyu beef sold – $/kg CW	$22.06	$17.52
Cattle revenue – $ mil	41.4	40.5
Cattle sales – mil kg LW[1]	10.1	10.8

[1] CW – carton weight containing saleable boxed meat, LW – live animal weight.

Production

Kilograms produced is a measure of the number of cattle live weight kilograms grown throughout the breeding, backgrounding and feedlot operations of the Company during the period, excluding the offsetting impact of attrition kilograms. Kilograms produced has increased by 18.3% on the prior comparative period, as a result of increased brandings, as the Company rebuilds the herd following years of drought and the 2019 floods.

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. This calculation is the sum of production costs incurred at each of the Company's productive properties, divided by the number of total live weight kilograms produced over the period. The cost of production increased by 1.3% on the prior comparative period, with increased inflationary costs partly offset by improved kilograms through more efficient production.

	6 MONTHS TO 30 SEP 2022	6 MONTHS TO 30 SEP 2021
Kilograms produced – mil kg LW	40.1	33.9
Cost of production – $/kg LW	$2.42	$2.39

Statutory Financial Results

The H1FY23 results include a Statutory EBITDA profit of $92.3 million (H1FY22 profit of $137.0 million), which is a reduction on the prior comparative period driven by lower cattle fair value gains and higher operational and cattle costs. Cattle fair value adjustments include $9.4 million decrease in livestock fair values due to market price movements on March 2022.

An operating cash inflow of $3.4 million was achieved in H1FY23 compared with an operating cash inflow of $17.3 million in H1FY22. This $13.9 million reduction is a reflection of higher payments due to increased operational expenditure.

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

The measure of Operating Profit is a key indicator which is used to monitor and manage the Company and represents an adjusted Statutory EBITDA. Operating Profit is a key measure of profitability for AACo which removes unrealised livestock mark-to-market fluctuations from the Statutory Profit result, and measures cost of goods sold using production costs rather than fair value. Management therefore believe that external stakeholders benefit from this metric being reported.

Operating Profit for H1FY23 of $38.3 million (H1FY22 $30.0 million), was driven by a continued focus on costs coupled with the improvements seen in meat and cattle sales prices, yielding increased gross margins.

OPERATING AND FINANCIAL REVIEW (continued)

Reconciliation of Operating Profit to Statutory Profit (continued)

Operating Profit, Statutory EBIT and Statutory EBITDA are unaudited, non-IFRS financial information. A reconciliation of Operating Profit to Statutory EBITDA and Net Profit After Tax is provided below:

	6 MONTHS TO 30 SEP 2022 $'000	6 MONTHS TO 30 SEP 2021 $'000
Operating Profit	**38,259**	**29,979**
Unrealised mark-to-market of herd	(9,358)	86,967
Cost versus Fair Value: Kgs sold or produced	61,252	19,315
Other income	2,105	730
Statutory EBITDA[1]	**92,258**	**136,991**
Depreciation and amortisation	(11,488)	(9,705)
Statutory EBIT	**80,770**	**127,286**
Finance costs	(7,407)	(7,401)
Income tax expense	(21,796)	(36,667)
Net Profit after tax	**51,567**	**83,218**

[1] EBITDA is defined by the Company as earnings before interest, tax, depreciation, amortisation, impairment, and changes in the fair value of property.

Capital Structure

The Company continues to target a gearing ratio of 20.0% to 35.0%, excluding the impacts of AASB 16.

	30 SEP 2022 $'000	31 MAR 2022 $'000
Current debt		
Interest-bearing liabilities	3,986	3,333
Lease liabilities	8,181	5,753
Non-current debt		
Interest-bearing liabilities	10,214	8,009
Lease liabilities	31,617	18,037
Bank loan facility[1]	370,872	368,834
Bank guarantees	1,454	1,454
Cash	(8,730)	(9,269)
Net debt	**417,594**	**396,151**
Equity employed	1,409,375	1,362,570
Total capital employed	**1,826,969**	**1,758,721**
Gearing (net debt / net debt + equity)	22.9%	22.5%
Gearing (net debt / net debt + equity) pre AASB 16 adoption	21.1%	21.5%

[1] The gearing ratio is calculated utilising the drawn-down balance of the bank loan facility. This is not offset by $1.4 million of prepaid borrowing costs.

Net Tangible Assets

The Company's net tangible assets per share was $2.33 as at 30 September 2022, compared to $2.27 as at 31 March 2022. 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 2022, and therefore the Company's Dividend Reinvestment plan (DRP) was inactive throughout the period.

OPERATING AND FINANCIAL REVIEW (continued)

Risk Management

As an international seller of its branded beef, as well as an importer and exporter of various commodities, the Company is vulnerable to geopolitical tensions and changes in macroeconomic conditions. Significant events may occur in Australia or internationally which could have an impact on the Company's prospects for financial performance. A recent example of this is the emerging worldwide inflationary pressures that are driving increased interest rates and volatility. In Australia's immediate region, potential outbreaks of Foot and Mouth Disease (FMD) and Lumpy Skin Disease (LSD) have caused increased concern for national biosecurity. The multitude and scale of these potential risks creates a degree of uncertainty in economic and business operating conditions and may have unanticipated impacts on financial and operational performance, outside the control of management.

Taking these macroeconomic and geopolitical issues into consideration, a list of the business risks that have the potential to impact the Company's ability to deliver its strategy and achieve its business objectives is detailed below. We will continue to monitor, mitigate and manage business risks and their potential impact on the Company's operations, financial performance and business strategies for future financial years.

AACo has a comprehensive risk management framework that aligns to the international risk management standard (ISO 31000:2018) as well as standards such as the USA Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2017 update of the Enterprise Risk Management – Integrated Framework and the 2013 update of the Internal Control – Integrated Framework. The risk management framework provides details on the risk appetite of AACo as well as how the risk framework supports business decisions at the strategic, operational and tactical levels.

To provide additional clarity, AACo has consolidated the risks discussed in other reports and guidance into this report. There are no material changes from the information provided in previous AACo documents and briefings to the market. For more information on the risks that AACo monitors and manages, refer to the following documents at www.aaco.com.au:

- AACo 2022 Annual Report
- AACo 2022 Sustainability Report
- AACo 2022 Corporate Governance Statement

1. Climate & Nature

Adverse weather conditions have historically caused variability in the agricultural sector. AACo has exposure to a range of climate-related weather events including drought, floods, fire, extreme heat and disease. The occurrence of extreme weather events could affect the Company's supply chain, leading to unforeseen changes in meat production volumes, declined cattle sales and beef sales, and result in additional capital expenditure requirements and/or production costs.

There is a potential for legislative changes imposing carbon reduction requirements on the cattle industry. Whilst Australia has signed the Global Methane Pledge, the impact on AACo is unknown at this point in time. If either of these were legislated for the cattle industry, this could have an impact on financial performance of the Company. There is also significant uncertainty regarding the future possibility of carbon pricing globally, and the extent to which this could be legislated. Further, there is uncertainty regarding the Company's net emissions profile in the future given the work underway with regards to sustainability measures, including carbon credits and alternative land use. It is therefore difficult to determine the impact carbon pricing mechanisms could have on the Company's prospects and AACo is continuing to monitor this area.

As the custodians of 1% of Australia's land mass, the Company is very conscious of these climatic factors and invests in mitigation where possible. Our geographically dispersed property portfolio assists in minimising these risks. Consideration of climate related risks is incorporated into ongoing operations as well as budgeting and operational planning. Our approach to sustainability demonstrates our commitment to ensuring the proactive management of climate and nature related risks; one of AACo's five strategic pillars. We are committed to developing and implementing new technologies and methodologies for abatement and sequestration of methane and carbon emissions and enhancing our sustainability metrics and reporting.

2. Technology and Cybersecurity

AACo relies on internal and third-party technology providers for the infrastructure and systems that support its operations. Disruptions to the Company's technology infrastructure and systems could adversely impact the ability of the Company to feed cattle, coordinate with external parties for the processing of cattle, and organise the shipping of boxed beef to domestic and international distributors.

The unauthorised disclosure of employee, customer, company, or partner information through deliberate or unintentional means could impact the Company's reputation and may have financial consequences. A robust information technology monitoring and security program is in place to proactively manage the threats from malicious and unintended breaches of the Company's information, infrastructure and systems.

OPERATING AND FINANCIAL REVIEW (continued)

Risk Management (continued)

3. Animal health and welfare

AACo manages a significant number of animals as part of its ongoing operations, and the health and welfare of these animals is of the utmost importance to the Company. The risk of the mistreatment, mishandling and abuse of any animal is managed as a strategic and operational imperative. An event related to actual or claimed animal health and welfare issue could cause substantial harm to the reputation of the Company and/or closure of access to important international markets.

AACo's Animal Health and Welfare (AHW) Committee oversees our operations to ensure animal care and handling follows best practice methods. Our sustainability program is developing an animal health and welfare certification program for extensive beef production, to be completed by 2024. The certification standard will provide a structure to drive innovation and improvement from the already high standards and practices of the industry in Northern Australia.

AACo recognises that the entry of diseases into Australia, such as FMD and LSD, would significantly impact its operations and the Australian cattle industry. AACo is working closely with industry associations, external advisors, as well as the federal, state and territory governments to ensure the Company is obtaining the latest information and advice. Biosecurity plans are continuously reviewed and updated as required, to monitor and mitigate risks to our supply chain from the potential spread of diseases across the industry.

Additionally, AACo includes diversification as a consideration when assessing the merits of strategic projects.

4. Supply Chain

AACo has an extensive supply chain that relies on internal and external inputs to ensure the Company's product is of high quality and delivered in a timely manner to our customers.

The Company relies on road freight to transport cattle across the country to our properties, processors and customers. Road, sea and air freight are relied upon to deliver boxed beef to the Company's global distribution network.

During COVID, disruptions to global shipping networks tightened scheduling and placed upwards pressure on freight costs. Future disruptions to supply chains increase the cost of delivering our boxed beef to our global distribution network.

Rapidly rising energy costs are placing significant pressure on production and transport costs, which could impact margins over time.

5. Market access

A significant portion of AACo's branded beef is sold internationally. Trade with international markets includes a number of risks which could impact operating and financial performance.

The nature of beef production is such that production volumes are unable to rapidly respond to changes in demand. Sudden variations in demand, such as the sudden loss of access to a key market, or changes in foreign market herd dynamics impacting in-market beef supply, may have an adverse impact on financial performance as the Company.

The delivery of revenue growth and improved profit margins through the execution of AACo's branded beef strategy is in part dependent upon the continuous identification of customer and market demand which exists at increasingly greater price points. The Company leverages its customer base, which exists across numerous sales channels, cities, countries, and regions, in order to drive product demand and price growth.

6. Commodity prices

The Company has exposure to market price fluctuations for supply chain inputs including grain and fuel. To reduce the exposure to commodity price risk, AACo has two farms that supply a limited quantity of feed for our stations and feedlots. The Company hedges exposure to commodity pricing through the use of forward contracts. Increased commodity prices could impact production costs and future profitability.

7. Economic factors

Ongoing changes to economic conditions in Australia and internationally may have an impact on AACo's prospects for future financial years. The level of demand for AACo's product may be impacted by economic factors such as population growth, interest rates, foreign exchange rates, inflation, and changes in standards of living arising from economic cycles such as recession, which could impact AACo's financial performance.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (continued)

Risk Management (continued)

8. Consumer perceptions, taste and preferences

The significant majority of AACo's revenue is derived from the sale of high quality branded Wagyu beef, which is purchased by discerning members of the public due to its quality, provenance, flavour and taste. Changing economic conditions as outlined above, as well as increased media focus on health and protein alternates could lead to changes in demand. Conversely, research suggests that due to changing economic circumstances, our customer base is more likely to choose to purchase high value beef, rather than less expensive alternatives.

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.

Irrigated cropping trials in the Gulf region of Queensland are continuing, and successful completion of this Gulf Irrigation Project has the potential to impact the future financial performance of the Company. Potential regulatory approvals, project feasibility and the effectiveness of our execution may impact the financial outcomes of this project.

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 9 and forms part of the Directors' Report for the period ended 30 September 2022.

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.

Donald McGauchie	David Harris
Chairman	Managing Director, CEO
Brisbane	Brisbane
17 November 2022	17 November 2022

AUDITOR'S INDEPENDENCE DECLARATION

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

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 half year review of Australian Agricultural Company Limited for the half-year ended 30 September 2022 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

KPMG

Scott Guse

Scott Guse
Partner

Brisbane
17 November 2022

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement

For the half-year ended 30 September 2022

	6 MONTHS TO 30 SEP 2022 $'000	6 MONTHS TO 30 SEP 2021 $'000
Meat sales	122,325	102,934
Cattle sales	41,416	40,533
	163,741	**143,467**
Cattle fair value adjustments	187,609	211,623
	351,350	**355,090**
Cost of meat sold	(93,435)	(79,662)
Cost of live cattle sold	(40,294)	(39,314)
Cattle and feedlot expenses	(58,192)	(47,594)
Gross margin	**159,429**	**188,520**
Other income	3,135	2,027
Employee expenses	(30,298)	(24,607)
Administration and selling costs	(22,387)	(15,064)
Other operating costs	(15,210)	(12,325)
Property costs	(2,411)	(1,560)
Depreciation and amortisation	(11,488)	(9,705)
Profit before finance costs and income tax	**80,770**	**127,286**
Finance costs	(7,407)	(7,401)
Profit before income tax	**73,363**	**119,885**
Income tax expense	(21,796)	(36,667)
Net profit after tax	**51,567**	**83,218**

PROFIT PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE PARENT	CENTS	CENTS
Basic earnings per share	8.64	13.94
Diluted earnings per share	8.63	13.93

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

Consolidated Statement of Comprehensive Income

For the half-year ended 30 September 2022

	6 MONTHS TO 30 SEP 2022 $'000	6 MONTHS TO 30 SEP 2021 $'000
Net profit for the period	**51,567**	**83,218**
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to profit or loss:		
Revaluation of intangible assets, net of tax	–	416
Items that may be reclassified subsequently to profit or loss:		
Revaluation of foreign currency operations, net of tax	(1,600)	(506)
Changes in fair value of cash flow hedges, net of tax	(3,249)	(939)
Other comprehensive loss for the period, net of tax	**(4,849)**	**(1,029)**
Total comprehensive income for the period, net of tax	**46,718**	**82,189**

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 2022

	NOTE	AS AT 30 SEP 2022 $'000	AS AT 31 MAR 2022 $'000
Current assets			
Cash and cash equivalents		8,730	9,269
Trade and other receivables		15,962	7,548
Inventories and consumables		26,264	22,204
Livestock		435,431	334,047
Other assets		1,918	12,140
Total current assets		**488,305**	**385,208**
Non-current assets			
Livestock		371,809	402,143
Property, plant and equipment	4	1,242,237	1,239,061
Intangible assets		5,603	6,290
Right-of-use assets	5	37,743	21,873
Investments		238	238
Other assets		78	78
Total non-current assets		**1,657,708**	**1,669,683**
Total assets		**2,146,013**	**2,054,891**
Current liabilities			
Trade and other payables		26,682	27,610
Provisions		4,646	3,997
Lease liabilities	5	8,181	5,753
Interest-bearing liabilities	7	3,986	3,333
Derivatives	6	4,017	2,301
Total current liabilities		**47,512**	**42,994**
Non-current liabilities			
Provisions		998	1,623
Lease liabilities	5	31,617	18,037
Interest-bearing liabilities	7	379,638	375,258
Deferred tax liabilities		276,873	254,409
Total non-current liabilities		**689,126**	**649,327**
Total liabilities		**736,638**	**692,321**
Net assets		**1,409,375**	**1,362,570**
Equity			
Contributed equity		528,822	528,822
Reserves		735,100	739,862
Retained earnings/(Accumulated losses)		145,453	93,886
Total equity		**1,409,375**	**1,362,570**

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

Consolidated Statement of Changes in Equity

For the half-year ended 30 September 2022

	CONTRIBUTED EQUITY $'000	RESERVES $'000	(ACCUMULATED LOSSES)/RETAINED EARNINGS $'000	TOTAL EQUITY $'000
At 1 April 2021	**528,822**	**558,847**	**(43,044)**	**1,044,625**
Profit/(Loss) for the period	–	–	83,218	83,218
Other comprehensive income/(loss)	–	(1,029)	–	(1,029)
Total comprehensive income/(loss) for the period	**–**	**(1,029)**	**83,218**	**82,189**
Transactions with owners in their capacity as owners:				
Cost of share-based payments	–	37	–	37
At 30 September 2021	**528,822**	**557,855**	**40,174**	**1,126,851**
At 1 April 2022	**528,822**	**739,862**	**93,886**	**1,362,570**
Profit/(Loss) for the period	–	–	51,567	51,567
Other comprehensive income/(loss)	–	(4,849)	–	(4,849)
Total comprehensive income/(loss) for the period	**–**	**(4,849)**	**51,567**	**46,718**
Transactions with owners in their capacity as owners:				
Cost of share-based payments	–	87	–	87
At 30 September 2022	**528,822**	**735,100**	**145,453**	**1,409,375**

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

Consolidated Statement of Cash Flows

For the half-year ended 30 September 2022

	6 MONTHS TO 30 SEP 2022 $'000	6 MONTHS TO 30 SEP 2021 $'000
Cash flows from operating activities		
Receipts from customers	170,377	151,632
Payments to suppliers, employees and others	(160,102)	(125,828)
Interest received	26	65
Net operating cash inflow before interest and finance costs	10,301	25,869
Payment of interest and finance costs	(6,891)	(8,529)
Net cash inflow from operating activities	**3,410**	**17,340**
Cash flows from investing activities		
Payments for property, plant and equipment and other assets	(5,317)	(3,697)
Proceeds from sale of property, plant and equipment	1,021	523
Net cash outflow from investing activities	**(4,296)**	**(3,174)**
Cash flows from financing activities		
Proceeds from borrowings net of transactions costs	20,000	15,000
Repayments of borrowings net of transactions costs	(15,000)	(20,000)
Principal repayments of leases	(4,653)	(4,729)
Net cash inflow/(outflow) from financing activities	**347**	**(9,729)**
Net increase/(decrease) in cash	**(539)**	**4,437**
Cash at the beginning of the period	9,269	8,875
Cash at the end of the period	**8,730**	**13,312**

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 2022

1. Basis of preparation

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 2022 were authorised for issue in accordance with a resolution of the Directors on 17 November 2022.

b) Basis of preparation

This general purpose financial report for the half-year ended 30 September 2022 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The interim report does not include all notes of the type normally included within the annual financial report. Accordingly, this report should be read in conjunction with the financial report for the year ended 31 March 2022 and considered together with any public announcements made by Australian Agricultural Company Limited during the half-year ended 30 September 2022, 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) 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 2022 consolidated financial report.

2. Accounting policies

a) 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.

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.

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 2022 cattle have been valued using level 2 and level 3 fair value price inputs as defined by AASB 13 *Fair Value Measurement*.

2. Accounting policies (continued)

b) Pastoral property and improvements at fair value

Pastoral 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 profit or loss. Any revaluation decrement is recognised in profit or loss 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. 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 pastoral leases held with government bodies as perpetual leases and as such, specifically excluded these from measurement under AASB 16 *Leases*.

Commercial leases for pastoral properties that are held with third parties are measured under AASB 16 and recorded as a right-of-use asset with a corresponding debt obligation.

c) 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 H1FY23, operations continue to be suspended at Livingstone Beef. As at 30 September 2022, Management have reassessed internal and external factors that may indicate further impairment of the CGU. As a result of this assessment, no factors were identified that may indicate the CGU's recoverable amount was materially different from its carrying value as at 30 September 2022.

d) Taxes

The Company's consolidated effective tax rate in respect of continuing operations for the six months ended 30 September 2022 was 29.7 percent (for the six months ended 30 September 2021 30.4 percent).

e) Intangible Assets

Intangible assets are stated at historical cost less accumulated depreciation and accumulated impairment losses, unless acquired free of charge or for nominal consideration.

Australian Carbon Credit Units ("ACCUs") have been acquired by the Company without consideration, through the Clean Energy Regulator for carbon abatement. ACCUs meet the definition of an intangible asset under AASB 138 *Intangible assets*, and are valued in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* and AASB 13 *Fair Value Measurement* given they are acquired without consideration.

ACCUs are initially recognised at fair value upon receipt, and are subsequently measured under the AASB 138 Cost Model. Previously the Revaluation Model was adopted, however as the market for ACCUs is no longer deemed to be active, the carrying amount of these assets remain at their revalued amount at the date of the last revaluation.

3. 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 Company 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 determining the allocation of resources. The Company is viewed as one operating segment for internal reporting to the Board and Executive Leadership team, including the Managing Director/Chief Executive Officer (MD/CEO), with financial information for the Company provided on at least a monthly basis.

Accounting policies – reportable segments

The accounting policies used in reporting segments are the same as those contained in the financial statements and in the prior period.

The measure of Operating Profit is a key indicator which is used to monitor and manage the Company and represents an adjusted Statutory EBITDA. Operating Profit is a key measure of profitability for AACo which removes unrealised livestock mark-to-market fluctuations from the statutory profit result, and measures cost of goods sold using production costs rather than fair value. Management therefore believe that external stakeholders benefit from this metric being reported, as it is a better reflection of financial performance within the control of management.

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 2022 and 30 September 2021.

	30 SEP 2022 $'000	30 SEP 2021 $'000
Segment revenue	163,741	143,467
Inter-segment revenue	–	–
Revenue from external customers	**163,741**	**143,467**
Operating Profit	**38,259**	**29,979**
Unrealised mark-to-market of herd	(9,358)	86,967
Cost versus Fair Value: Kgs sold or produced	61,252	19,315
Other Income	2,105	730
Statutory EBITDA	**92,258**	**136,991**
Depreciation and amortisation	(11,488)	(9,705)
Statutory EBIT	**80,770**	**127,286**
Net finance costs	(7,407)	(7,401)
Income tax (expense)/benefit	(21,796)	(36,667)
Net Profit after tax	**51,567**	**83,218**

Revenues from external customers

MEAT SALES REVENUES	30 SEP 2022 $'000	30 SEP 2021 $'000
South Korea	34,071	29,848
USA	25,413	22,082
EU	13,448	6,849
Australia	8,762	9,309
Canada	8,573	7,133
Other countries	32,058	27,713
Total meat sales revenue per Income Statement	**122,325**	**102,934**

CATTLE SALES REVENUES	30 SEP 2022 $'000	30 SEP 2021 $'000
Australia	41,416	40,533
Total cattle sales revenue per Income Statement	**41,416**	**40,533**

4. Property, plant and equipment

Acquisitions and disposals

During the six months ended 30 September 2022, the Company acquired assets with a cost of $5.3 million (six months to 30 September 2021: $3.7 million). No property acquisitions were made during the period.

Assets with a combined net book value of $0.4 million were disposed of by the Company during the six months ended 30 September 2022 (six months to 30 September 2021: $0.2 million). No sales of property were made during the period.

5. Right-of-use assets and lease liabilities

Right-of-use assets relate to buildings, property, vehicles and equipment leased by the Company, excluding pastoral property held under statutory leases. 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 date of adoption of AASB16. When measuring liabilities for new lease agreements, the Company discounts lease payments using its incremental borrowing rate at the lease commencement date. The average interest rate applied to measure leases is 3.39%.

	30 SEP 2022 $'000	31 MAR 2022 $'000
Right-of-use assets		
Non-current	37,743	21,873
Lease liabilities		
Current	8,181	5,753
Non-current	31,617	18,037
	39,798	**23,790**

During the six month period to 30 September 2022, the Company entered into a 10 year Aggregation Lease for the Comanche and Homehill properties and renewed the lease for Collie Blue on a 1-year term. All are Queensland cattle properties.

6. Derivatives

	30 SEP 2022 $'000	31 MAR 2022 $'000
Current assets		
Foreign currency contracts	–	1,269
Current liabilities		
Interest rate swap contracts	20	2,301
Foreign currency contracts	3,997	–
	4,017	**2,301**

Fair values

As at 30 September 2022 and 31 March 2022, the only financial instruments recognised at fair value were interest rate swaps and forward currency contracts. These are valued using a 'level 2' method under 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.

6. Derivatives (continued)

Forward currency exchange contracts

Foreign currency contracts are entered in to hedge the cash flows of foreign denominated forecast meat sales. As these contracts are hedge accounted, their effectiveness was required to be assessed under AASB 9 *Financial Instruments.* The effective portion of the gain or loss is accounted for in Other Comprehensive Income and the ineffective portion posted to profit or loss. Forward currency contracts can have maturities of up to 36 months. These contracts sell in US dollars and buy in Australian dollars. The total notional value of these contracts at 30 September 2022 was AUD $40.8 million (31 March 2022: AUD $32.6 million).

Interest rate swap contracts

The Company has entered into interest rate swaps which are economic hedges. Interest rate swaps manage the mix of borrowings between fixed and floating rates as per our Treasury Policy. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the forward interest rate curves at reporting date. The Company had $235 million interest rate swaps which expired in September 2022, and in the same month entered into $50 million of interest rate swaps with differing tenors, which have been designated as effective hedges and therefore satisfy the accounting standard requirements for hedge accounting.

As at 30 September 2022, the notional principal amounts and period of expiry of the interest rate swaps are as follows:

	30 SEP 2022	31 MAR 2022
	$'000	$'000
0-1 years	25,000	235,000
1-5 years	25,000	–

7. Interest-bearing liabilities

	30 SEP 2022	31 MAR 2022
	$'000	$'000
Current		
Other interest-bearing liabilities	3,986	3,333
Non-Current		
Secured bank loan facility	369,424	367,249
Other interest-bearing liabilities	10,214	8,009
	379,638	**375,258**

Other interest-bearing liabilities are chattel mortgages over vehicles, plant and equipment. Liabilities relating to chattel mortgages are discounted using the interest rate implicit in the financing arrangements. The average rate is 2.9%.

Secured bank loan facility

The Company's Club Debt Facilities committed facility capacity is $600 million, with an expiry of 8 October 2026. Interest drawn on borrowings under the Club Debt Facilities is charged at the applicable BBSY rate + Margin. The facility is currently drawn down by $370.9 million (31 March 2022: $368.8 million).

The Facility A limit is $410 million, repayable on 8 October 2026. The Facility B limit is $190 million, repayable on 8 April 2024 with a rolling 18 month tenor.

Financing facilities are provided on a secured basis, with security provided by Company assets. Financial covenants are in place over the Company's Loan to Value Ratio (LVR). The following financing facilities are available:

	30 SEP 2022	31 MAR 2022
	$'000	$'000
Borrowing Capacity under Facility A and Facility B	600,000	600,000
Guarantee Facility Capacity	3,000	3,000
Facility A and B Drawn-down	(370,872)	(368,834)
Bank guarantee utilised	(1,454)	(1,454)
Unused	**230,674**	**232,712**

8. Equity securities issued

Equity securities issued

No shares were issued during the six months to 30 September 2022 (six months to 30 September 2021: 523,798).

Dividends

No dividend was declared or paid during the six months to 30 September 2022 (six months to 30 September 2021: $nil).

9. Commitments

Capital commitments

Capital expenditure of $2.5 million has been contractually committed to in respect of property, plant and equipment as at 30 September 2022 (31 March, 2022: $2.1 million).

Other commitments

Forward purchase contracts have been entered into for $12.3 million worth of grain commodities and no forward purchase contracts for cattle as at 30 September 2022 (31 Mar 2022: $13.7 million worth of grain commodities and no forward purchase contracts for cattle). The contracts are expected to be settled within 12 months from balance date.

10. Related party disclosures

There were no material transactions with related parties during the six months to 30 September 2022 (30 September 2021: $nil).

11. 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 consolidated financial statements and notes set out on pages 10 to 20 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 2022 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

Donald McGauchie

Chairman

Brisbane

17 November 2022

INDEPENDENT AUDITOR'S REVIEW REPORT

KPMG

Independent Auditor's Review Report

To the shareholders of Australian Agricultural Company Limited

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 does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 September 2022 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 2022;
- 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 11 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.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with these requirements.

INDEPENDENT AUDITOR'S REVIEW REPORT

KPMG

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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities 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. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Half-year Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 September 2022 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*.

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.

KPMG

KPMG

Scott Guse
Partner

Brisbane
17 November 2022

COMPANY INFORMATION

Name of Entity

Australian Agricultural Company Limited

ABN

15 010 892 270

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Share Registry

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

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Auditors

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