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**Australian Agricultural Company Limited**

**ABN 15 010 892 270**

**FINANCIAL REPORT**

**For the half-year ended  
30 September 2020**

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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 2020 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 2020.

## 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)

Tom Keene (Non-executive Director)

Dr Shehan Dissanayake (Non-executive Director)

Anthony Abraham (Non-executive Director)

Neil Reisman (Non-executive Director)

Jessica Rudd (Non-executive Director)

Marc Blazer (Non-executive Director)

## OPERATING AND FINANCIAL REVIEW

### About AACo

The Australian Agricultural Company (AACo) is an Australian beef company with a heritage dating back to 1824. AACo is Australia's largest integrated cattle and beef producer, and is the oldest continuously operating company in Australia. AACo 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 inventory at market value with the movement in inventory 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 2020 \$'000	6 MONTHS TO 30 SEP 2019 \$'000
Meat sales	102,850	105,765
Cattle sales	41,051	76,983
Administration and selling costs	(13,713)	(17,399)
Operating Profit	23,494	6,337
Statutory EBITDA	15,020	(3,385)
Statutory EBIT	5,106	(11,769)
Net loss after tax	(1,673)	(14,122)
Net cash inflow from operating activities	22,322	11,020

# DIRECTORS' REPORT

## OPERATING AND FINANCIAL REVIEW (continued)

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

Statutory EBITDA was a profit of \$15.0 million in H1FY21 (\$3.4 million loss in H1FY20), Operating Profit was \$23.5 million (\$6.3 million profit in H1FY20). Operating Profit/Loss does not include unrealised livestock gains or losses, while Statutory EBITDA does include these.

### Sales and Marketing

Wagyu beef average pricing per kilogram has increased on average 15.2% on the prior comparative period, and 11.0% on average prices for the year ended 31 March 2020. 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.

	6 MONTHS TO 30 SEP 2020	6 MONTHS TO 30 SEP 2019
Wagyu beef revenue – \$ mil	99.7	102.8
Wagyu beef kgs sold – mil kg CW <sup>(1)</sup>	6.2	7.4
Wagyu beef sold – \$/kg CW	16.03	13.91
Cattle revenue – \$ mil	41.1	77.0
Cattle sales – mil kg LW <sup>(1)</sup>	13.0	34.2

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

### Production

Kilograms produced is a measure of the number of cattle live weight kilograms grown throughout the breeding, backgrounding and feedlot operations of the Company during the period. This metric excludes any offsetting impact of attrition kilograms. Kilograms produced has reduced due to the 23% reduction in head count since 31 March 2019, resulting from destocking reported in the Annual Report for the year ended 31 March 2020.

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 decreased by 17% on the previous corresponding period, which is a reflection of drought conditions elevating feeding and transport costs in the previous year.

	6 MONTHS TO 30 SEP 2020	6 MONTHS TO 30 SEP 2019
Kilograms produced – mil kg LW	25.8	34.5
Cost of production – \$/kg LW	2.74	3.29

# DIRECTORS' REPORT

## OPERATING AND FINANCIAL REVIEW (continued)

### Statutory Financial Results

The H1FY21 results include a Statutory EBITDA profit of \$15.0 million (H1FY20 loss of \$3.4 million), driven by improvements in cattle and meat sales price, coupled with management's continued focus on costs and a lower cost environment stemming from improvements in seasonal conditions. This result includes a \$10.0 million fair value decrease in livestock due to seasonal breeding cycle which has a lower expectation of calves born between the six months ended 30 September 2020.

An operating cash inflow of \$22.3 million was achieved in H1FY21 compared with an operating cash inflow of \$11.0 million in H1FY20. This \$11.3 million improvement is a reflection of the improvements seen in Statutory EBITDA.

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 volume movements in livestock and inventory occur at cost of production, whilst Statutory EBITDA results record these volume movements at fair value.

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

	6 MONTHS TO 30 SEP 2020 \$'000	6 MONTHS TO 30 SEP 2019 \$'000
<b>Operating Profit/(Loss)</b>	<b>23,494</b>	<b>6,337</b>
Reverse: Movement in livestock and inventory at cost of production	1,681	7,155
Other income/expenses	(140)	(1,653)
Change in livestock value	(10,015)	(15,224)
<b>Statutory EBITDA<sup>(4)</sup> Profit/(Loss)</b>	<b>15,020</b>	<b>(3,385)</b>
Depreciation and amortisation	(9,529)	(8,406)
Gain/(Loss) on equity investments	(385)	22
<b>Statutory EBIT Profit/(Loss)</b>	<b>5,106</b>	<b>(11,769)</b>
Finance costs	(7,169)	(7,356)
Income tax benefit	390	5,003
<b>Net Profit/(Loss) after tax</b>	<b>(1,673)</b>	<b>(14,122)</b>

<sup>(4)</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

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

	30 SEP 2020 \$'000	31 MAR 2020 \$'000
Current debt		
Lease liabilities	6,924	7,600
Non-current debt		
Lease liabilities	22,176	25,791
Bank loan facility <sup>(1)</sup>	360,000	380,700
Bank guarantees	1,454	1,454
Cash	(14,165)	(18,125)
<b>Net debt</b>	<b>376,389</b>	<b>397,420</b>
<b>Equity employed</b>	<b>917,649</b>	<b>913,389</b>
<b>Total capital employed</b>	<b>1,294,038</b>	<b>1,310,809</b>
Gearing (net debt / net debt + equity)	29.1%	30.3%
Gearing (net debt / net debt + equity) pre AASB 16 adoption	27.7%	28.8%

<sup>(1)</sup> The gearing ratio is calculated utilising the drawn-down balance of the bank loan facility. This is not offset by \$0.7 million of prepaid borrowing costs.

### Net Tangible Assets

The Company's net tangible assets per share was \$1.54 as at 30 September 2020, compared to \$1.53 as at 31 March 2020. Net tangible assets of the Company include leasehold land assets.

### Wage Subsidy – Jobkeeper

The Company has applied for and received wage subsidy payments under the JobKeeper Payment scheme due to the financial impact of COVID-19. The payments received have been presented as Other Income in the Consolidated Income Statement and as Cash flows from operating activities in the Consolidated Statements of Cash Flows. During the period, the Company received or was entitled to receive government grant income totalling \$6.7 million, \$4.0 million of which is included in the Statement of Cash Flows for the half-year ended 30 September 2020.

The Company has not applied for the JobKeeper extension which came into effect on 28 September 2020.

### Dividends

There were no dividends declared or paid during the six months to 30 September 2020, 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 profitability 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.

# DIRECTORS' REPORT

## OPERATING AND FINANCIAL REVIEW (continued)

### Business Strategies, Likely Developments and Expected Results

The Board reiterates its commitment to increasing shareholder value through incremental improvements to Return on Capital Employed (ROCE) over time. The goal is to improve the quantity and quality of the Company's earnings by increasing the Company's exposure to premium branded beef prices which are underpinned by rising incomes in both the developed and developing world. Business strategy will focus on optimising supply chains, implementing a differentiated branding strategy, and investing in innovation and technology.

### 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 2020.

### 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  
19 November 2020



Hugh Killen  
Managing Director, CEO

Brisbane  
19 November 2020

# 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 2020 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

A handwritten signature in black ink that reads 'Scott Guse'.

Scott Guse  
Brisbane  
19 November 2020

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# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Income Statement

For the half-year ended 30 September 2020

	6 MONTHS TO 30 SEP 2020 \$'000	6 MONTHS TO 30 SEP 2019 \$'000
Meat sales	102,850	105,765
Cattle sales	41,051	76,983
<b>Total Revenue</b>	<b>143,901</b>	<b>182,748</b>
Cattle fair value adjustments	77,743	129,211
	221,644	311,959
Cost of meat sold	(78,575)	(101,587)
Deemed cost of cattle sold	(39,188)	(72,790)
Cattle and feedlot expenses	(47,930)	(83,997)
<b>Gross margin</b>	<b>55,951</b>	<b>53,585</b>
Other income	8,791	2,097
Employee expenses	(24,249)	(25,114)
Administration and selling costs	(13,713)	(17,399)
Other operating costs	(10,179)	(14,768)
Property costs	(1,581)	(1,786)
Gain/(Loss) on equity investments	(385)	22
Depreciation and amortisation	(9,529)	(8,406)
<b>Profit/(Loss) before finance costs and income tax</b>	<b>5,106</b>	<b>(11,769)</b>
Finance costs	(7,169)	(7,356)
<b>Profit/(Loss) before income tax</b>	<b>(2,063)</b>	<b>(19,125)</b>
Income tax benefit	390	5,003
<b>Net Profit/(Loss) after tax</b>	<b>(1,673)</b>	<b>(14,122)</b>
<b>PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE PARENT</b>	<b>CENTS</b>	<b>CENTS</b>
Basic loss per share	(0.28)	(2.39)
Diluted loss per share	(0.28)	(2.39)

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

# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Statement of Comprehensive Income

For the half-year ended 30 September 2020

	6 MONTHS TO 30 SEP 2020 \$'000	6 MONTHS TO 30 SEP 2019 \$'000
Net Profit/(Loss) for the period	(1,673)	(14,122)
<b>Other Comprehensive Income/(Loss)</b>		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Changes in the fair value of cash flow and economic hedges, net of tax	4,944	(2,763)
<b>Other Comprehensive Income/(Loss) for the period, net of tax</b>	<u>4,944</u>	<u>(2,763)</u>
<b>Total Comprehensive Income/(Loss) for the period, net of tax</b>	<u><b>3,271</b></u>	<u><b>(16,885)</b></u>

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 2020

	NOTE	AS AT 30 SEP 2020 \$'000	AS AT 31 MAR 2020 \$'000
<b>Current assets</b>			
Cash and cash equivalents		14,165	18,125
Trade and other receivables		14,672	9,907
Inventories and consumables		23,362	26,571
Livestock		199,956	186,995
Derivatives	6	590	-
Other assets		567	2,895
<b>Total current assets</b>		<b>253,312</b>	<b>244,493</b>
<b>Non-current assets</b>			
Livestock		262,999	285,974
Property, plant and equipment	3	868,038	870,652
Intangible assets		1,725	1,995
Right-of-use assets	4	24,434	28,159
Investments		366	3,402
Other assets		761	867
<b>Total non-current assets</b>		<b>1,158,323</b>	<b>1,191,049</b>
<b>Total assets</b>		<b>1,411,635</b>	<b>1,435,542</b>
<b>Current liabilities</b>			
Trade and other payables		23,133	22,358
Provisions		3,880	2,962
Lease liabilities	4	6,924	7,600
Derivatives	6	5,907	8,941
<b>Total current liabilities</b>		<b>39,844</b>	<b>41,861</b>
<b>Non-current liabilities</b>			
Provisions		2,972	2,891
Borrowings	5	359,258	379,768
Lease liabilities	4	22,176	25,791
Derivatives	6	5,321	7,324
Deferred tax liabilities		64,415	64,518
<b>Total non-current liabilities</b>		<b>454,142</b>	<b>480,292</b>
<b>Total liabilities</b>		<b>493,986</b>	<b>522,153</b>
<b>Net assets</b>		<b>917,649</b>	<b>913,389</b>
<b>Equity</b>			
Contributed equity		528,822	528,822
Reserves		479,018	473,085
Accumulated losses		(90,191)	(88,518)
<b>Total equity</b>		<b>917,649</b>	<b>913,389</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 2020

	CONTRIBUTED EQUITY \$'000	RESERVES \$'000	(ACCUMULATED LOSSES)/RETAINED EARNINGS \$'000	TOTAL EQUITY \$'000
<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
<b>Adjusted opening balances</b>	<b>528,822</b>	<b>435,369</b>	<b>(119,835)</b>	<b>844,356</b>
Profit/(Loss) for the period	-	-	(14,122)	(14,122)
Other comprehensive Income/(Loss)	-	(2,763)	-	(2,763)
<b>Total comprehensive Income/(Loss) for the period</b>	<b>-</b>	<b>(2,763)</b>	<b>(14,122)</b>	<b>(16,885)</b>
<b>Transactions with owners in their capacity as owners:</b>				
Revaluation of foreign currency operations	-	(140)	-	(140)
Cost of share-based payments	-	103	-	103
<b>At 30 September 2019</b>	<b>528,822</b>	<b>432,569</b>	<b>(133,957)</b>	<b>827,434</b>
<b>At 1 April 2020</b>	<b>528,822</b>	<b>473,085</b>	<b>(88,518)</b>	<b>913,389</b>
Profit/(Loss) for the period	-	-	(1,673)	(1,673)
Other comprehensive Income/(Loss)	-	4,944	-	4,944
<b>Total comprehensive Income/(Loss) for the period</b>	<b>-</b>	<b>4,944</b>	<b>(1,673)</b>	<b>3,271</b>
<b>Transactions with owners in their capacity as owners:</b>				
Revaluation of foreign currency operations	-	927	-	927
Cost of share-based payments	-	62	-	62
<b>At 30 September 2020</b>	<b>528,822</b>	<b>479,018</b>	<b>(90,191)</b>	<b>917,649</b>

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 2020

	6 MONTHS TO 30 SEP 2020 \$'000	6 MONTHS TO 30 SEP 2019 \$'000
<b>Cash flows from operating activities</b>		
Receipts from customers	152,513	193,541
Payments to suppliers, employees and others	(122,593)	(175,172)
Interest received	7	44
Net operating cash inflow before interest and finance costs	29,927	18,413
Payment of interest and finance costs	(7,605)	(7,393)
<b>Net cash inflow from operating activities</b>	<b>22,322</b>	<b>11,020</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment and other assets	(5,155)	(12,065)
Proceeds from sale of property, plant and equipment	-	470
Proceeds from the sale of equity interest in associates	2,653	-
Investments in associates	-	(148)
<b>Net cash outflow from investing activities</b>	<b>(2,502)</b>	<b>(11,743)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings net of transactions costs	-	17,000
Repayments of borrowings net of transactions costs	(20,700)	(12,000)
Principal repayments of leases	(3,080)	(2,853)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>(23,780)</b>	<b>2,147</b>
Net increase/(decrease) in cash	(3,960)	1,424
Cash at the beginning of the period	18,125	7,565
<b>Cash at the end of the period</b>	<b>14,165</b>	<b>8,989</b>

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 2020

### 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 2020 were authorised for issue in accordance with a resolution of the Directors on 19 November 2020.

#### b) Basis of preparation

This general purpose condensed financial report for the half-year ended 30 September 2020 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, the financial position, the financing and investing activities of the Group as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the financial report for the year ended 31 March 2020 and considered together with any public announcements made by Australian Agricultural Company Limited during the half-year ended 30 September 2020, 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 2020 consolidated financial report.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2020

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

#### i) 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.

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 2020 cattle have been valued using level 2 and level 3 fair value price inputs as defined by AASB 13 *Fair Value Measurement*.

#### ii) 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 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. 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.

#### iii) Impacts of COVID-19

Valuations included in the financial report such as the valuation of Pastoral property and improvements and Livestock are based on information available and relevant as at 30 September 2020. These valuations and estimates have not been materially impacted by the uncertainty surrounding COVID-19 since 31 March 2020, however market conditions are still subject to uncertainty as a result of COVID-19.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2020

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

#### iv) 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 H1FY21 operations continue to be suspended at Livingstone Beef. As at 30 September 2020, 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 2020.

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.

#### v) Taxes

The Company's consolidated effective tax rate in respect of continuing operations for the six months ended 30 September 2020 was 19.3 percent (for the six months ending 30 September 2019 26.2 percent). The change in the effective tax rate is a result of an increase in the ratio of tax losses incurred by controlled foreign companies versus Group profit before tax.



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2020

### 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 – reportable segments

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

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 all Livestock inventory is valued on a \$/kg live-weight (LW) basis and is derived by adjusting statutory EBITDA to substitute the movement in inventory at market value with the movement in inventory at cost of production.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2020

### 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 2020 and 30 September 2019.

30 SEP 2020	AACO EX LIVINGSTONE \$'000	LIVINGSTONE BEEF \$'000	ELIMINATIONS \$'000	TOTAL \$'000
Segment revenue	143,901	-	-	143,901
Inter-segment revenue	-	-	-	-
<b>Revenue from external customers</b>	<b>143,901</b>	<b>-</b>	<b>-</b>	<b>143,901</b>
<b>Operating Profit/(Loss)</b>	<b>24,716</b>	<b>(1,222)</b>	<b>-</b>	<b>23,494</b>
Reverse: Movement in inventory at cost of production	1,681	-	-	1,681
Other income/expenses	(140)	-	-	(140)
Change in livestock value	(10,015)	-	-	(10,015)
<b>Statutory EBITDA Profit/(Loss)</b>	<b>16,242</b>	<b>(1,222)</b>	<b>-</b>	<b>15,020</b>
Depreciation and amortisation	(9,138)	(391)	-	(9,529)
Gain/(Loss) on equity investments	(385)	-	-	(385)
<b>Statutory EBIT Profit/(Loss)</b>	<b>6,719</b>	<b>(1,613)</b>	<b>-</b>	<b>5,106</b>
Net finance costs				(7,169)
Income tax benefit				390
<b>Net Profit/(Loss) after tax</b>				<b>(1,673)</b>

30 SEP 2019	AACO EX LIVINGSTONE \$'000	LIVINGSTONE BEEF \$'000	ELIMINATIONS \$'000	TOTAL \$'000
Segment revenue	182,748	-	-	182,748
Inter-segment revenue	-	-	-	-
<b>Revenue from external customers</b>	<b>182,748</b>	<b>-</b>	<b>-</b>	<b>182,748</b>
<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 Profit/(Loss)</b>	<b>(344)</b>	<b>(3,041)</b>	<b>-</b>	<b>(3,385)</b>
Depreciation and amortisation	(7,984)	(422)	-	(8,406)
Gain/(Loss) on equity investments	22	-	-	22
<b>Statutory EBIT Profit/(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 Profit/(Loss) after tax</b>				<b>(14,122)</b>

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2020

### 3. Property, plant and equipment

#### Acquisitions and disposals

During the six months ended 30 September 2020, the Company acquired assets with a cost of \$4.3 million (six months to 30 September 2019: \$12.1 million). No property acquisitions were made during the period.

Assets with a combined net book value of less than \$0.1 million were disposed of by the Company during the six months ended 30 September 2020 (six months to 30 September 2019: \$0.4 million). No sales of property were made during the period.

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

Right-of-use assets relate to buildings and property leased by the Company, excluding Pastoral property held under statutory leases. When measuring lease liabilities for leases that were previously classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 April 2019. When measuring lease liabilities for new lease agreements, the Company discounts lease payments using its incremental borrowing rate at the lease commencement date. The average rate applied is 3.86%.

	30 SEP 2020 \$'000	31 MAR 2020 \$'000
<b>Lease liabilities</b>		
Current	6,924	7,600
Non-current	22,176	25,791
<b>Right-of-use assets</b>		
Non-current	24,434	28,159

No new leases were entered into or right-of-use assets acquired during H1FY21. During H1FY20 the Company entered into a 10-year lease of Rewan, a central Queensland cattle property.

### 5. Borrowings

	30 SEP 2020 \$'000	31 MAR 2020 \$'000
<b>Non-current</b>		
Secured bank loan facility	359,258	379,768
	359,258	379,768

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 2020 \$'000	31 MAR 2020 \$'000
Total available under Facility A and Facility B	550,000	550,000
Guarantee facility	3,000	3,000
Bank Guarantees Utilised	(1,454)	(1,454)
Facility A and Facility B Combined Drawn-down	(360,000)	(380,700)
Unused	191,546	170,846

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2020

### 6. Derivatives

	30 SEP 2020 \$'000	31 MAR 2020 \$'000
<b>Current assets</b>		
Foreign currency contracts	590	-
<b>Current liabilities</b>		
Interest rate swap contracts	5,308	4,629
Foreign currency contracts	599	4,312
	<u>5,907</u>	<u>8,941</u>
<b>Non-Current liabilities</b>		
Interest rate swap contracts	5,308	6,943
Foreign currency contracts	13	381
	<u>5,321</u>	<u>7,324</u>

### Fair values

As at 30 September 2020 and 31 March 2020, the only financial instruments recognised at fair value were interest rate swaps and forward currency contracts. These are valued using a 'level 2' method, which estimates fair value using inputs that are observable either directly (as prices) or indirectly (derived from prices). The carrying amount of all other financial assets and liabilities approximates the fair value.

### Forward currency exchange contracts

Foreign currency contracts are attributed to forecast meat sales. As these contracts are hedge accounted, the effectiveness was required to be assessed in terms of AASB 9 *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 2020 was AUD \$45.4 million (31 March 2020: AUD \$45.6 million).

### Interest rate swap contracts

The Company has entered into interest rate swaps which are economic hedges. The Company fair values these contracts by comparing the contracted rate to the market rates for contracts with the same length of maturity. Interest rate swaps are entered in order to manage the mix of borrowings between fixed and floating rates as per our Treasury Policy. These contracts swap \$235 million of floating rate debt for fixed, and have been designated as effective hedges and therefore satisfy the accounting standard requirements for hedge accounting. The swaps expire on 8 September 2022 in line with the expiry date of the bank facility.

As at 30 September 2020, the notional principal amounts and period of expiry of the interest rate swaps are as follows:

	30 SEP 2020 \$'000	31 MAR 2020 \$'000
0-1 years	-	-
1-5 years	235,000	235,000

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2020

### 7. Equity securities issued

#### Equity Securities Issued

No shares were issued during the six months to 30 September 2020 (six months to 30 September 2019: nil).

#### Dividends

No dividend was declared or paid during the six months to 30 September 2020 (six months to 30 September 2019: \$nil).

### 8. Commitments

#### Capital commitments

No capital expenditure has been contractually committed to in respect of property, plant and equipment as at 30 September 2020 (31 March 2019: \$nil).

#### Other commitments

Forward purchase contracts have been entered into for \$27.5 million worth of grain commodities and \$17.0 million worth of cattle as at 30 September 2020 (31 March 2020: \$7.3 million worth of grain and \$39.5 million worth of cattle). The contracts are expected to be settled within 12 months from balance date.

### 9. Related party disclosures

During the six months ended 30 September 2020, it was announced that AACo had entered into transactions to divest of all of its interest in four IT service companies in which AACo held minority interests, being Trabeya, Atlas Labs, Pyxle and Surge Global. The divestment of these interests was completed in September 2020. Net proceeds of these transactions totalled approximately \$2.6 million, which represented an approximate net positive cash return of approximately \$0.4 million or 18% over cash invested in these interests, but represented an overall book loss on the divestments of approximately \$0.4 million.

Remaining transactions with related parties during the six-month period to 30 September 2020 and 30 September 2019 were immaterial, and the nature of these transactions remains unchanged from those disclosed in the 31 March 2020 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 2020 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

19 November 2020

# 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 2020 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 2020;
- 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.

#### 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 the Code.

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# INDEPENDENT AUDITOR'S REVIEW REPORT



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

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; 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 2020 and its performance for the Half-year Period 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

A handwritten signature in black ink that reads 'Scott Guse'.

Scott Guse  
Partner

Brisbane  
19 November 2020



# 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