

(ASX Code: AAC)

2012 Half Year Financial Report

ASX Announcement No. 42/2012

8 August 2012

Manager ASX Market Announcements Australian Securities Exchange

Attached is the Australian Agricultural Company Limited's Half Year Financial Report for the half year ended 30 June 2012.

Issued by:

Bruce Bennett Company Secretary Tel. (07) 3368 4400

www.aaco.com.au



Australian Agricultural Company Limited

ABN 15 010 892 270

Half-Year Financial Report

For the Half-Year ended 30 June 2012

Australian Agricultural Company Limited Half-Year Financial Report

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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 annual report for the year ended 31 December 2011 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.

Your directors present their report on the Group consisting of Australian Agricultural Company Limited and the entities it controlled (AACo) at the end of, or during, the half-year ended 30 June 2012.

DIRECTORS

The following persons were directors of Australian Agricultural Company Limited during the whole of 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)
David Farley (Managing Director/Chief Executive Officer)
Arunas Paliulis
Dato' Sabri Ahmad
Stuart Black AM
David Crombie
Tom Keene
Dr Shehan Dissanayake – appointed 27 April 2012
Irfan Allana (alternate Director for A. Paliulis)
Denys Collin Munang (alternate Director for Dato' Sabri Ahmad) – appointed 13 March 2012
Nick Burton Taylor (Resigned 16 March 2012)
Chris Roberts (Resigned 16 March 2012)

REVIEW AND RESULTS OF OPERATIONS

The Half Year in Review

The first six months of 2012 has seen AACo benefit from rain received in late March and early April. These rains have ensured that AACo has more than sufficient pasture to deliver on management forecasts for 2012. The herds across all properties are in very good condition and the available pasture is expected to promote excellent weight gain. This in turn has led to slower turnoff of cattle to market and delayed completion of first round mustering and branding of cattle. Cattle prices have eased since December 2011 but are expected to firm in the second half of this year.

30 June 2012 Operations and Financial Highlights

- Cattle sales up by \$12.5 million (13.7% increase compared to the 2011 comparative period).
- Gross operating margin up by \$11.4 million (31.8% increase compared to the 2011 comparative period).
- EBITDA increase of \$2.6 million (40.5% increase compared to the 2011 comparative period).
- EBIT from continuing operations of \$4.4 million (84.8% increase compared to the 2011 comparative period).
- Net loss after tax from continuing operations \$4.1 million (\$8.5 million turnaround compared to the 2011 comparative period).
- Increased herd numbers by 38,821 head (6.1% increase compared to the 2011 comparative period).
- Operating cash flow improvement of \$36.8 million compared to the 2011 comparative period.

Financial results

	Six Months to 30 June 2012	Six Months to 30 June 2011	Favourable/ (Unfavourable) Movements
	\$'000	\$'000	%
Continuing Operations			
Finished & store cattle			
Cattle sales (1)	103,857	91,330	13.7%
Cattle growth (2)	32,239	29,585	9.0%
Cattle fair value adjustments (3)	35,527	22,551	57.5%
Deemed cost of cattle sold (4)	(103,857)	(91,330)	(13.7)%
Cattle expenses (5)	(13,106)	(11,633)	(12.7)%
Feedlot cattle expenses (6)	(14,169)	(13,251)	(6.9)%
Finished & store cattle gross margin	40,491	27,252	48.6%
Wholesale beef			
Sales	60,412	60,508	(0.2)%
Cost of meat sold	(58,108)	(56,363)	(3.1)%
Wholesale beef gross margin	2,304	4,145	(44.4)%
Farming			
Income	14,308	9,765	46.5%
Crop costs	(9,812)	(5,274)	(86.0)%
Farming gross margin	4,496	4,491	0.1%
Gross operating margin	47,291	35,888	31.8%
Other revenue	1,225	361	239.3%
	48,516	36,249	33.8%
Expenses			
Employees	(16,515)	(13,794)	(19.7)%
Other station operating costs	(11,525)	(8,140)	(41.6)%
Lease and property related costs	(3,575)	(1,914)	(86.8)%
Administration and other non-station operating costs	(7,985)	(6,053)	(31.9)%
Operating expenses	(39,600)	(29,901)	(32.4)%
Depreciation/amortisation	(4,496)	(3,956)	(13.7)%
Profit from continuing operations before finance costs and income tax	4,420	2,392	84.8%
Net finance costs from continuing operations	(14,117)	(15,342)	8.0%
Loss from continuing operations before income tax	(9,697)	(12,950)	25.1%
Income tax benefit	5,647	4,277	32.0%
Loss from continuing operations after related income tax expense	(4,050)	(8,673)	53.3%
		\-,	
Loss from discontinued operations after related income tax expense	(56)	(3,897)	98.6%

⁽¹⁾ Cattle sales are sales from cattle physically delivered to market.

⁽²⁾ Cattle growth is the value change in the herd arising from increased weight as the cattle grow.

⁽³⁾ Cattle fair value adjustments arise from market value changes in the herd, natural increase (7), attrition and rations.

⁽⁴⁾ Under the Biological Assets accounting standards the value changes occur prior to the point of sale and these are reflected in 2 & 3 above.

⁽⁵⁾ Direct costs associated with managing non-feedlot cattle.

⁽⁶⁾ Direct costs associated with managing feedlot cattle.

⁽⁷⁾ Natural increase is the value change from calves and brandings.

Revenue and gross margin

Cattle sales were stronger than in the comparable period 2011 due to increased numbers sold and higher sale weights leading to increased average prices achieved of \$1,056 per head (2011 \$987 per head).

The increased cattle sales were supported by a 10.9% increase in cattle growth to 42.0 million kgs over the same period in 2011.

During the period AACo live cattle were exported to 7 countries, reducing dependence on Indonesia. The strong demand for AACo genetics in Indonesia has meant AACo has retained solid price premiums when overall demand has contracted due to a reduction in import quota.

The table below reconciles the cattle fair value adjustments through profit and loss:

	June 2012	June 2011
Unrealised cattle market price movements on the trading herds	(10,433)	(4,707)
Other cattle fair value adjustments including natural increase and other fair market value adjustments	45,960	27,258
Cattle fair value adjustments	35,527	22,551

Market value adjustments arising from market price changes to the herd values over the period resulted in an unrealised cattle price loss of \$10.4 million compared to \$4.7 million for the same period in 2011. Despite this adverse price adjustment, the results of another good season have meant that other cattle fair value adjustments have improved significantly.

The loss in herd values due to market price changes was mitigated by strong natural increase numbers from calf and branding programs with an increase of \$9.0 million. The Branding program for 2012 is circa 30,000 head behind schedule due primarily to the wet weather conditions. It is anticipated that the program will catch up by the end of September 2012.

AACo continues to roll out the Individual Animal Recognition (IAR) systems that will allow unprecedented management control and selection pressure over the breeding and trading herds. IAR will provide AACo with improved data and better visibility on attrition, valuation and performance, on a herd and individual animal basis. These IAR systems will be linked to breeding and production technology to improve overall herd and financial outcomes going forward.

The Wholesale beef operations sold 7.1 million kgs (June 2011 – 7.4 million kgs) to generate revenues of \$60.4 million (June 2011 - \$60.5 million). Trading margins are expected to improve in the second half of 2012 due in part to the seasonal demand and in part due to the price structure of the forward purchases for wholesale beef. Margins in this business continue to face the challenges of market tightening and the strong Australian dollar.

Farming margins were generated predominantly from cotton picked in 2012.

Cattle Production

	First half 2012	First half 2011	Full year 2011
Opening balance (head)	665,591	577,144	577,144
Natural increase (including calf accrual) Purchases Cattle attrition and rations Cattle sales	67,831 54,411 (9,400) (98,306)	50,267 117,905 (11,433) (92,577)	173,121 177,516 (22,425) (239,765)
Closing balance (head)	680,127	641,306	665,591
Closing balance consists of: Breeding (head) Non breeding (head)	446,232 233,895	267,425 373,881	442,172 223,419
Cattle valuation (\$'000)	490,585	451,526	483,683
Average price of cattle sold (\$ per head)	1,056	987	961
Average price of cattle purchased (\$ per head)	622	612	614
Average cattle inventory value (\$ per head)	721	704	727

Expenses

Total operating expenses increased over the same period in 2011 due to the impact of extra stations, farms and feedlots under management, in particular the Tipperary aggregation and Lynora farming operation. Investment in people and information technology has had an impact on expenses during the period but will provide significant productivity benefits going forward.

Depreciation/amortisation and impairment

Total depreciation and amortisation of \$4.5 million is \$0.5 million higher than the same period in 2011. There were no impairment costs for the period.

Interest and finance costs

Total finance costs decreased to \$14.1 million from \$15.3 million in the prior comparative period, reflecting the capital raising in the same period last year and lower financing costs.

Net Cash Flow

	Six months to 30 June 2012 \$'000	Six months to 30 June 2011 \$'000
Cash flows		
Net cash inflows		
Cattle trading	59,899	11,034
Beef product trading	896	9,422
Other operating revenues	2,447	590*
Cash outflows		
Operating costs	(67,924)	(63,008)*
Interest and financing costs	(15,401)	(14,953)
Net cash flows used in operating activities	(20,083)	(56,915)
Asset movements		
Asset sales inflows	229	91
Capital expenditure	(11,056)	(10,658)
Net proceeds from share issues	1,308	65,539
Net drawdowns from bank facility	22,974	5,017
Net cash (outflow)/inflow	(6,628)	3,074

^{* \$5,274} crop payments reclassified from operating costs to other operating revenues for consistency with current year presentation

Comparison to 2011 first half results

Net cash flows used in operating activities totalled \$20.1 million compared to \$56.9 million in the previous corresponding period. Delaying cattle sales in the first half of 2012 to take advantage of good pasture arising from the rains has resulted in a net cash outflow. In the prior corresponding period, which also began with beneficial seasonal conditions, a similar strategy was used. In addition the acquisition of the Tipperary herd in 2011 for \$20.1 million occurred, which reflected the strategy of building stocks of trading cattle and refining the breeding herd to improve reproductive performance. Higher cattle turnoffs and turnoff weights in the second half of 2012 with lower cattle purchases than last calendar year will give rise to strong positive operating cashflows in the second half of 2012.

Capital Expenditure of \$11.1 million during the period included major development on Headingly station. In 2011 the comparative \$10.7 million included \$5.0 million for Tipperary plant & equipment and inventory items associated with the establishment of operations on Tipperary.

In 2011 net proceeds of \$65.5 million were received from the issue of shares in the Company. The funds were used primarily to finance the Tipperary asset acquisitions and repay debt.

Debt

The debt leverage of the Group (as measured by Net Debt / (Net Debt + Equity)) of 36.1% (2011: 33.9%) is marginally higher than the prior corresponding period.

Net tangible assets

The Group's net tangible assets per share were \$2.13 at 30 June 2012, compared to \$2.15 at 31 December 2011.

Dividend

The Company is committed to the reinstatement of dividends and has previously foreshadowed that on a return to positive operational cashflows the Directors will consider a return to dividends.

CONTINUING OPERATIONS

The Group continues to operate 18 owned cattle stations, 2 owned and 5 external feedlots and 2 owned and 2 external farms located in Queensland and the Northern Territory. In addition, the Group also operates Tipperary station and other properties via agistment agreements.

STRATEGIC REVIEW AND DIRECTION

During the period the Board held a strategic planning retreat with management. The outcome was a commitment to improve the Return on Assets and realise shareholder value over the longer term. The Company's focus will be on continuing operational improvements, maximising the potential of the existing land holdings and moving upstream into higher value adding activities. The Board recognises management's function is to maximise the trade-off between risk and return. Emphasis will be placed on diversification of income and on price risk management. This will require some additional investment in people and technology to realise the opportunities open to the Company. AACo's vision is transforming agriculture to leverage off the global food thematic.

Property, Plant & Landholdings

Directors and management continue to challenge the strategic fit and profitability of all station holdings. The Group continues to focus on improving Return on Assets employed and is considering a number of options. These include alternate complimentary land use through cropping to produce diverse revenue streams and lift profit across all arable and irrigation farming properties. Other opportunities for diversification, rationalisation, and expansion continue to be investigated.

Darwin Abattoir

In May 2012, AACo announced that a wholly owned subsidiary, Northern Australian Beef Limited (NABL), had received an Exceptional Development Permit (EDP) approving the development of an abattoir south of Darwin. The approval contains 5 conditions precedent that must be met to enable the development to proceed. The Company has satisfied itself that these EDP conditions precedent have either been met or are capable of being met as part of the final development and approval processes.

The Company has proceeded with the acquisition of the site at Livingstone Farm for a price of \$14.2 million, including stamp duty and other ancillary costs.

The Livingstone site is approximately 600ha in size, of which approximately 14ha will be occupied by the abattoir. The balance of the site will comprise irrigation zones, natural wetlands, ponds and other areas providing facility and amenity to the site. The additional land purchased will ensure a sufficient buffer zone between the abattoir and adjoining areas.

The AACo Board has agreed to release an Information Memorandum to seek funding for the Darwin Meat processing facility which is budgeted at a total estimated capital cost of circa \$83 million (including land). The project is forecast to meet return criteria established by the AACo Board.

Importantly it will underpin the Company's investment in land and livestock in Northern Australia.

Risk Management

The Company has established a Commodities Hedging Desk which focusses on reducing market input and output price risk across business units. The desk does this by exploring the price relationships between a business unit's expected/forecast underlying price exposure and then seeking an offsetting instrument in the Exchange Traded or Over The Counter derivative markets.

The ultimate goal of the desk is not complete price mitigation (as hedge limits represent a relatively small percentage of overall exposure) but to smooth out sharp deviations in input and output market price risk.

The desk operates within clearly defined limits which are set by the Board Risk Management Committee and approved by the Board and reviewed regularly.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

AUDITOR'S INDEPENDENCE

We have obtained the following independence declaration from our auditors Ernst & Young.



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Auditor's Independence Declaration to the Directors of Australian Agricultural Company Limited

In relation to our review of the financial report of Australian Agricultural Company Limited for the half-year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Mike Reid Partner

08 August 2012

Signed in accordance with a resolution of the Directors

Ernst & Joung

Donald McGauchie AO Chairman

Onaminan

08 August 2012

		Half	-year
	Note	2012 \$'000	2011* \$'000
Revenue from continuing operations			
Cattle sales		103,857	91,330
Meat sales		60,412	60,508
Crop income	_	14,308	9,765
		178,577	161,603
Cattle growth		32,239	29,585
Cattle fair value adjustments	-	35,527	22,551
Deemed cost of cattle sold		246,343 (103,857)	213,739 (91,330)
Cattle expenses		(13,106)	(11,633)
Feedlot cattle expenses		(14,169)	(13,251)
Cost of meat sold		(58,108)	(56,363)
Crop costs		(9,812)	(5,274)
0.00 000.0		(0,012)	(0,21 1)
Other revenue		1,225	361
Expenses			
Employee expenses		(16,515)	(13,794)
Administration and other non-station operating costs		(7,985)	(6,053)
Depreciation, amortisation and impairment		(4,496)	(3,956)
Lease and property related costs		(3,575)	(1,914)
Other station operating costs		(11,525)	(8,140)
Profit from continuing operations before finance costs and income tax expense		4,420	2,392
Net finance costs from continuing operations	-	(14,117)	(15,342)
Loss from continuing operations before income tax		(9,697)	(12,950)
Income tax benefit from continuing operations	_	5,647	4,277
Loss from continuing operations after related income tax			
expense		(4,050)	(8,673)
•		(, ,	(, ,
Loss from discontinued operations after related income tax benefit	9	(56)	(3,897)
Net loss after tax expense	<u>-</u>	(4,106)	(12,570)
		Cents	Cents
Earnings per share			
Basic loss per share attributable to the shareholders		(1.3)	(4.0)
Diluted loss per share attributable to the shareholders		(1.3)	(4.0)
Familians non share for continuing accounting			
Earnings per share for continuing operations		(4.0)	(0.0)
Basic loss per share from continuing operations		(1.3)	(2.8)
Diluted loss per share from continuing operations		(1.3)	(2.8)

^{*}Certain numbers shown here have been re-categorised from the June 2011 financial statements. Refer to note 1(c).

The above consolidated income statement should be read in conjunction with the accompanying notes.

	Half-year	
	2012 \$'000	2011 \$'000
Loss for the period	(4,106)	(12,570)
Other comprehensive income		
Loss on revaluation of property, plant and equipment Adjustment to reset tax cost bases Changes in the fair value of cash flow hedges	- 202 (3,196)	(985) (239)
Other comprehensive loss for the period, net of tax	(2,994)	(1,224)
Total comprehensive loss for the period, net of tax	(7,100)	(13,794)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

	Note	30 June 2012 \$'000	31 December 2011 \$'000
Current assets Cash and cash equivalents Trade and other receivables Inventories and consumables Biological assets - livestock Derivative financial instruments Other assets		16,741 25,320 33,698 169,138 838 1,578	23,369 20,712 25,146 168,354 30 723
Total current assets		247,313	238,334
Non-current assets Receivables Biological assets - livestock Property, plant and equipment Deferred tax assets	2	321,448 631,053 3,970	9 315,329 608,468 2,786
Total non-current assets		956,471	926,592
Total assets		1,203,784	1,164,926
Current liabilities Trade and other payables Provisions Interest bearing loans and borrowings Derivative financial instruments Current tax liabilities	3 4 —	46,659 2,712 1,767 7,322 470	25,791 2,310 56,421 4,471 192
Total current liabilities		58,930	89,185
Non-current liabilities Provisions Interest bearing loans and borrowings Deferred tax liabilities	3	463 390,752 87,196	444 311,148 92,162
Total non-current liabilities	_	478,411	403,754
Total liabilities		537,341	492,939
Net assets	_	666,443	671,987
Equity Contributed equity Reserves Retained earnings Total equity	6	239,604 348,253 78,586 666,443	238,296 350,999 82,692 671,987
1	_	220,0	2,00.

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

		Hal	f-year
	Note	2012 \$'000	2011 \$'000
Cash flows from operating activities Receipts from customers Payments to suppliers, employees and others Interest received Net GST received from ATO	_	165,978 (177,427) 251 6,516	156,854 (203,639) 287 4,536
Net operating cash flows before interest and finance costs		(4,682)	(41,962)
Payment of interest and finance costs	_	(15,401)	(14,953)
Net cash flows used in operating activities	8 _	(20,083)	(56,915)
Cash flows from investing activities Payments for property, plant and equipment and other assets Proceeds from sale of property, plant and equipment Payments for Tipperary assets	_	(11,056) 229 -	(5,658) 91 (5,000)
Net cash flows used in investing activities	_	(10,827)	(10,567)
Cash flows from financing activities Proceeds from borrowings Repayments of borrowings Net proceeds from issue of shares	6 _	25,000 (2,026) 1,308	54,032 (49,015) 65,539
Net cash flows from financing activities		24,282	70,556
Net (decrease)/increase in cash and cash equivalents		(6,628)	3,074
Cash and cash equivalents at the beginning of the period		23,369	17,045
Cash and cash equivalents at the end of the period	_	16,741	20,119

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

	Note	Contributed equity \$000	Reserves \$000	Retained earnings \$000	Total equity \$000
Balance at 1 January 2011		172,785	347,682	72,167	592,634
Loss for the half-year		-	-	(12,570)	(12,570)
Other comprehensive loss	-	<u>-</u>	(1,224)	<u>-</u>	(1,224)
Total comprehensive income/(loss) for the half-year	-	-	(1,224)	(12,570)	(13,794)
Transactions with owners in their capacity as owners:					
Shares issued	6	67,696	-	-	67,696
Transaction costs on share issue		(2,157)	-	-	(2,157)
Cost of share-based payment	-	-	300	-	300
	-	65,539	300	-	65,839
Balance at 30 June 2011	-	238,324	346,758	59,597	644,679
Balance at 1 January 2012	-	238,296	350,999	82,692	671,987
Loss for the half-year Other comprehensive loss		- -	(2,994)	(4,106) -	(4,106) (2,994)
Total comprehensive income/(loss) for the half-year	-		(2,994)	(4,106)	(7,100)
Transactions with owners in their capacity as owners:					
Shares issued	6	1,308	-	-	1,308
Cost of share-based payment		-	248	-	248
	- -	1,308	248	-	1,556
Balance at 30 June 2012	=	239,604	348,253	78,586	666,443

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

(a) Basis of preparation

This general purpose condensed financial report for the half-year ended 30 June 2012 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

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

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 31 December 2011 and considered together with any public announcements made by Australian Agricultural Company Limited during the half-year ended 30 June 2012 in accordance with the continuous disclosure obligations of the ASX listing rules.

(b) New standards, interpretations and amendments thereof, adopted by the Group

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 January 2012. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Group:

- AASB 1054 Australian Additional Disclosures
- AASB 2011-1 Amendments to Australian Accounting Standards arising from Trans-Tasman Convergence Project (AASB 1, 5, 101, 107, 108, 121, 128, 132 & 134 and Interpretations 2, 112 & 113)
- AASB 2010-6 Amendments to Australian Accounting Standards Disclosures on Transfers of Financial Assets (AASB 1 & 7)
- AASB 2010-8 Amendments to Australian Accounting Standards Deferred Tax: Recovery of Underlying Assets (AASB 112)
- AASB 2010-9 Amendments to Australian Accounting Standards Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (AASB 1)

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(c) Reclassification of the Income Statement

Australian Accounting Standard AASB 101 'Presentation of Financial Statements' allows an entity to change the presentation or classification of items in its financial statements, if the change in presentation provides information that is reliable and more relevant to the users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. For the year ended 31 December 2011 the Company changed the presentation of its Income Statement to a format that is more reliable and relevant to its users, and this affected the comparative amounts for the half-year to June 2011. These changes included, amongst others, disclosing cattle fair value adjustments and gross margin separately on the face of the income statement. The comparatives have been restated to reflect the changes in presentation. The effect of this re-classification on the six months to 30 June 2011 income statement is as follows:

	\$'000
Sales revenue as previously reported	122,416
Amounts re-classified	
Cattle sales	91,330
Meat sales	60,508
Crop income	9,765
Cattle growth	29,585
Cattle fair value adjustments	22,551
Deemed cost of cattle	(91,330)
Revenue from discontinued operations	7
Sales revenue re-classified	122,416

2011

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(c) Reclassification of the Income Statement (continued)

For the half-year ended 30 June 2012 the Company changed the presentation of its Income Statement to a format that is more reliable and relevant to its users, and this affected the comparative amounts for the half-year to June 2011. These changes included the combination of expense lines previously disclosed separately on the face of the income statement. The comparatives have been restated to reflect the changes in presentation. The effect of this re-classification on the six months to 30 June 2011 income statement is as follows:

	2011	
	Re-classified \$'000	As previously reported \$'000
Administration and other costs	-	(5,272)
Business development and other non-station operating costs	-	(781)
Administration and other non-station operating costs	6,053	

2. NON-CURRENT ASSETS

(a) Property, plant and equipment

Acquisitions and disposals

During the half-year ended 30 June 2012, the Group acquired assets with a cost of \$25.2 million (2011: \$10.7 million), including \$14.2 million for Darwin land. Refer to note 11 for subsequent settlement of the Darwin land.

Assets with a net book value of \$0.1 million (net of livestock) were disposed of by the Group during the half-year ended 30 June 2012 (2011: \$0.1 million), resulting in a profit on disposal of \$0.1 million (2011:\$0.1 million loss).

During the half-year ended 30 June 2012, the Directors reviewed the valuation of freehold land, pastoral leases, buildings and improvements recorded at 31 December 2011 and were of the opinion that there was no impairment to the property values disclosed in the financial statements (2011: Nil).

(b) Intangible assets

Impairment losses

The Company had no intangible assets at 30 June 2012. An impairment loss of \$4.4 million on intangible assets was recognised during the half-year ended 30 June 2011. This consisted of an impairment loss of \$2.2 million on Chefs Partner goodwill, and a write off of \$2.2 million with respect to other intangibles.

3. INTEREST-BEARING LOANS AND BORROWINGS

\$35 million (2011: \$35 million) bank loan facility repaid

This club loan facility had a balance owing of \$35 million at 31 December 2011. The Loan was repaid on 15 March 2012.

\$85 million (2011: \$85 million) bank loan facility

This club loan facility had a balance owing of \$55 million at 31 December 2011. The Loan was repaid on 15 March 2012.

\$270 million (2011: \$270 million) bank loan facility

This club loan facility had a balance owing of \$270 million at 31 December 2011. The Loan was repaid on 15 March 2012.

3. INTEREST-BEARING LOANS AND BORROWINGS (continued)

\$450 million (2011: Nil) bank loan facility

The Company established a banking syndicated facility to replace the club facility. The loans are repayable on 9 March 2015. It is intended that the loans will be renewed at maturity date. The facility comprises two facilities:

Facility A - \$400 million – currently drawn down by \$385 million. This is offset in the balance sheet by a prepaid facility participation fee of \$2.0 million.

Facility B - \$50 million - undrawn.

\$13.5 million (2011: \$8 million) asset finance facilities

The balance owing on the facility is \$9.5 million at 30 June 2012 (2011: \$7.6 million).

4. DERIVATIVE FINANCIAL INSTRUMENTS

Forward currency exchange traded contracts

The Group has entered into forward currency exchange traded contracts which are economic hedges but do not satisfy the requirements for hedge accounting. Currencies forward contracted have maturities between 0 to 12 months. These contracts are in US dollars. The total notional value of these contracts at 30 June 2012 was AUD 44,864,000 (2011: AUD 1,386,000).

These contracts are fair valued by comparing the contracted rate to the market rates for contracts with the same length of maturity. All movements in fair value are recognised in profit or loss in the period they occur. The net fair value gain on foreign currency derivatives during the 2012 half year was \$781,000 (2011: Nil).

Interest rate swaps

The Group has entered into interest rate swaps which are economic hedges. The \$80 million swap does not satisfy the requirements for hedge accounting. The \$200 million swaps have been designated as effective interest rate swaps under AASB 139 and therefore satisfy the requirements of hedge accounting.

The net fair value profit on interest rate swaps during the half year was \$914,000 (2011: \$1,059,000).

As at 30 June 2012 and 31 December 2011, the notional principal amounts and period of expiry of the interest rate swaps are as follows:

	2012	2011
	\$'000	\$'000
0-1 years	80,000	80,000
1-3 years	200,000	200,000

5. RELATED PARTY DISCLOSURES

The following table provides the total amount of transactions that were entered into with related parties for the half-years ended 30 June 2012 and 2011 respectively. No amounts were owing to or owing by related parties at 30 June 2012 (2011: Nil). Amounts reported for the current period include all transactions for the six-month period to 30 June 2012.

	2012	2011
Related party	\$'000	\$'000
N. Burton Taylor and associated entities		
Sales to related parties	-	1
Purchases from related parties	3	10

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made in arm's length transactions, both at normal market prices and on normal commercial terms.

5. RELATED PARTY DISCLOSURES (continued)

Outstanding balances at half-year end are unsecured, interest free and settlement occurs in cash.

Mr. McGauchie is currently a Director of GrainCorp Limited who transact with the Group. All transactions with GrainCorp are on the same market terms and conditions as the general market and Mr. McGauchie does not influence or participate in any transactions.

6. EQUITY SECURITIES ISSUED

	2012 Number of	2011 Number of	2012	2011
	shares	shares	\$'000	\$'000
Issue of ordinary shares during the half-year				
Share placement	-	39,639,668	-	56,288
Share purchase plan Shares issued on exercise	-	8,033,008	-	11,408
of options Shares issued on exercise	924,000	-	1,308	-
of performance rights	43,950	-	-	-
· ·	967,950	47,672,676	1,308	67,696

2012

- (a) During 2012 the Company issued 924,000 shares for a total value of \$1.3 million in relation to exercise of options under the share purchase plan.
- (b) The Company also issued 43,950 performance rights under the AACo Performance Rights Plan for Nil consideration.

2011

- (a) During May 2011 the Company completed a fully underwritten institutional placement of 39,639,668 shares at a placement price of \$1.42 per share.
- (b) During June 2011 the Company issued 8,033,008 shares at \$1.42 per share in terms of a share purchase plan.

For the period ended 30 June 2011 transaction costs of \$2.2 million were incurred in relation to the share placement and share purchase plan. These costs were deducted from contributed equity.

7. SEGMENT REPORTING

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the 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 Chief Executive Officer on at least a monthly basis.

Types of products

Finished & Store Cattle

The Finished & Store Cattle Group operates an integrated cattle production system across 18 owned cattle stations, 5 agisted properties, 2 owned feedlots, 5 external feedlots, and 2 owned and 2 external farms located throughout Queensland and the Northern Territory. The Finished & Store Cattle Group produces beef cattle that are either exported or sold for meat. As the only significant product produced for external sale is beef cattle, the operation of the Finished & Store Cattle Group is considered to be one reportable segment.

7. SEGMENT REPORTING (continued)

Farming

Selected properties carry out farming operations including the growing and harvesting of cotton, wheat, sorghum and other crops. Farming is a developing area of the AACo group. It is considered reportable, and appropriately separately disclosed.

Wholesale Beef

The Wholesale Beef Group markets and distributes branded beef both internationally and domestically. The Wholesale Beef Group operates from the Group's offices at Milton in Brisbane. As the only significant product sold is branded meat, the operations of the Wholesale Beef Group are considered to be one reportable segment.

Meat Processing

Meat processing operations are based in Darwin. Meat is to be processed and packaged for local consumption and for export.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments are the same as those contained in Note 1 to the financial statements and in the prior period.

The following table presents the revenue and profit information regarding operating segments for the half-year periods ended 30 June 2012 and 30 June 2011.

	Continuing Operations				
	Finished	Wholesale		Meat	
	& Store Cattle	Beef	Farming	Processing	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2012					
Segment revenue	171,623	60,412	14,308	-	246,343
Segment gross margin	40,491	2,304	4,496	-	47,291
Segment result	2,528	1,052	1,032	(192)	4,420
Net finance costs					(14,117)
Income tax benefit					5,647 (4,050)
					(4,030)
30 June 2011*					
Segment revenue	143,466	60,508	9,765	-	213,739
Segment gross margin	27,252	4,145	4,491	-	35,888
Segment result	(4,153)	2,524	4,021	-	2,392
Net finance costs		•	,		(15,342)
Income tax benefit					4,277
					(8,673)
Total segment assets					
30 June 2012	1,138,945	19,540	27,135	17,813	1,203,433
Discontinued operations					351
					1,203,784
31 December 2011*	1,128,753	13,634	20,689	1,572	1,164,648
Discontinued operations	, , -	,	, -	,	278
					1,164,926

^{* 30} June 2011 and 31 December 2011 amounts have been restated to provide comparable information for the new farming and meat processing segments introduced during the six months to June 2012.

7. SEGMENT REPORTING (continued)

Reconciliation of previously reported segment revenue

For the half-year ended 30 June 2012 the Group changed the presentation of its segment note to a format that is more reflective of operations, and this affected the comparative amounts for the half-year to June 2011. The comparatives have been restated to reflect the changes in presentation. The effect of this re-classification on the six months to 30 June 2011 income statement is as follows:

	Continuing Operations				
	Finished	Wholesale		Meat	
	& Store	Beef	Farming	Processing	Total
	Cattle \$'000	\$'000	\$'000	\$'000	\$'000
30 June 2011					
-					
Segment revenue as					
previously reported	62,103	60,667	-	-	122,770
Reclassifications:					
Deemed cost of cattle	91,330	-	-	-	91,330
Farming revenue	(9,765)	-	9,765	-	-
Other revenue	(202)	(159)	-	-	(361)
Restated segment					
revenue	143,466	60,508	9,765	-	213,739

8. CASH FLOW STATEMENT RECONCILIATION

Reconciliation of net profit after tax to net cash flows from operations

	Half-year	
	2012 \$'000	2011 \$'000
Net profit after income tax	(4,106)	(12,570)
Adjustments for:		
Depreciation	4,498	5,335
Impairment	· -	1,935
(Gain)/loss on sale of property, plant and equipment	(104)	23
Increment in net market value of livestock	(6,903)	(40,051)
Changes in assets and liabilities:		
Increase in inventories	(8,552)	(5,533)
Increase in trade and other receivables	(5,407)	(6,890)
(Increase)/decrease in prepayments and other assets	(1,839)	1,810
Increase in deferred tax assets	(1,184)	(726)
Decrease in deferred tax liabilities	(4,766)	(4,403)
Increase/(decrease) in current tax liability	278	(819)
Increase in trade and other payables	6,691	5,572
Decrease in interest rate swaps; derivatives	(343)	(882)
Increase in provisions	1,654	284
Net cash used in operating activities	(20,083)	(56,915)

9. DISCONTINUED OPERATIONS

During May 2011, the board of directors formed the view that the Chefs Partner business should be wound down. The process was incomplete at 30 June 2011 and was finalised in the second half of the 2011 financial year.

The Chefs Partner business was previously reported as part of the Wholesale Beef segment. The decision to close the business was in line with the revised strategic direction of the Group.

The results of the discontinued operations for the half-year are presented below.

	Chefs Partner	
	Half year 2012 \$'000	Half year 2011 \$'000
Revenue – meat sales Cost of meat sold Gross operating margin Other income	- - - 4	6,845 (5,288) 1,557
Expenses Employee expenses Administration and other non-station operating costs Depreciation, amortisation and impairment Lease and property related costs Other station operating costs	(1) (4) (2) -	(2,316) (989) (3,315) (380) (26)
Loss from discontinued operations before finance costs and income tax expense Net finance costs from discontinued operations	(3) (77)	(5,469) (98)
Loss from discontinued operations before income tax Income tax benefit from discontinued operations Loss from discontinued operations after related income tax	(80) 24 (56)	(5,567) 1,670 (3,897)
Earnings per share: Basic loss for the year from discontinued operations Diluted loss for the year from discontinued operations	Cents - -	Cents (1.2) (1.2)

10. COMMITMENTS

At 30 June 2012 the Group had contracted to sell 17,808 (2011: 8,967) head of cattle. These cattle will be sold by September 2012. Forward sales contracts for \$12.0 million worth of cotton have been entered into at 30 June 2012 (2011: \$7.3 million). These contracts are expected to settle by August 2012.

At 30 June 2012 the Group had contractual obligations to purchase 11,555 (2011: 16,683) head of cattle. These cattle will be delivered to the Group's properties by December 2012. Forward purchase contracts for \$31.4 million worth of commodities were entered into at 30 June 2012 (2011:\$8.8 million). These contracts are expected to settle by December 2013.

11. EVENTS AFTER THE BALANCE SHEET DATE

The amount outstanding as at 30 June 2012 in other payables for the Darwin land acquired for the proposed NT abattoir was settled by the payment of \$14.2 million on 12 July 2012.

The AACo Board has agreed to release an Information Memorandum to seek funding for the Darwin Meat processing facility which is budgeted at a total estimated capital cost of circa \$83 million (including land). The project is forecast to meet return criteria established by the AACo Board.

DIRECTORS' DECLARATION

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

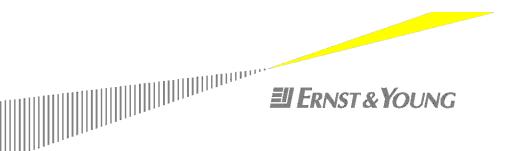
In the opinion of the Directors:

- (a) The financial statements and notes of the Group are in accordance with the *Corporations Act 2001*, including:
 - (i) Giving a true and fair view of the financial position as at 30 June 2012 and the performance for the half-year ended on that date of the Group;
 - (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

08 August 2012



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To the members of Australian Agricultural Company Limited

Report on the Half-year Financial Report

We have reviewed the accompanying condensed half-year financial report of Australian Agricultural Company Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility 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 for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Australian Agricultural Company Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act* 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.



Conclusion

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:

- a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Ernst & Joung

Mike Reid Partner Brisbane

08 August 2012

COMPANY INFORMATION

Australian Agricultural Company Limited ABN 15 010 892 270

Company Secretary

Bruce Bennett

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AACo shares are quoted on the Australian Stock Exchange (ASX) under listing Code AAC.

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