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# Full year 2015/16 Financial Results and Operating Review

**ANNOUNCEMENT** **31 AUGUST 2016**

## Financial result

The Company advises that the trading result for the year ended 30 June 2016 was a profit of $380,957 (2015: $568,280). The key components of this result are:

- A harvest of 845,900 litres (2015: 951,900 litres) resulting in management and lease fees of $3,069,736 (2015: $ 3,210,014);
- Higher than budgeted operating expenses principally as a consequence of the average price paid for water being more than double that paid in the 2015 season; and
- An upwards revaluation of the orchard asset of $189,318 (2015: decrease of $161,933).

This is a pleasing result given the record 2015 harvest and the expectation that this year's yield would be reduced as a consequence of the biennial nature of the trees. The financial result as summarised below confirms the correlation of the Company's operations with the annual harvest:

| | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| **Harvest volume** | **Litres** | **Litres** | **Litres** | **Litres** |
| VOOP | 493,400 | 505,800 | 347,500 | 549,800 |
| VOOP II | 210,700 | 208,000 | 142,100 | 148,900 |
| Peppercorn | 141,800 | 237,900 | 119,100 | 185,500 |
| Total harvest (litres) | 845,900 | 951,700 | 608,700 | 884,200 |
| | **$** | **$** | **$** | **$** |
| **EBITDA attributable to AAP** | 819,599 | 1,400,654 | 285,402 | 1,187,551 |
| Depreciation | 275,096 | 283,940 | 283,970 | 423,580 |
| Interest | 352,864 | 386,501 | 416,984 | 636,530 |
| Revaluations/other add backs | (189,318) | 161,933 | (223,315) | 434,489 |
| Tax | | - | - | 613,620 |
| **NPAT to AAP** | 380,957 | 568,280 | (192,237) | (920,668) |

The Company's surplus operating cash flows for the 2016 year amounted to $365,871, up from the previous year's surplus of $202,189, principally due to the large 2015 harvest. This surplus was utilised in the reduction of the structured debt facilities (commercial bills $225,000 and hire purchase $164,890) totalling $389,890. It is expected that the operating cash position for the next twelve months will be similar despite the lower 2016 harvest due to lower water prices and a reduced maintenance budget.

The Company's balance sheet continues to strengthen. Specifically:

- Current liabilities reduced by $742,000 from last year. Current liabilities include the current portion of shareholder loans of $920,000 which are on a month to month basis and are subject to renegotiation.
- The principal CBA facility of a $2,205,000 commercial bill has been renegotiated and is now on an interest only basis with the term extended to May 2020.
- The olive orchard of 403 hectares, which is subject to the two MIS projects the Company operates, is recorded in the balance sheet at $8,573,485, an increase of $189,318 over last year's carrying value.

The net tangible assets of 3.57 cents (2015: 3.32 cents) per share remains above the price range that the Company's shares have traded in over the past six months.

**The olive orchards**

*Operations*

The Company's principal objective is to be a low cost producer of quality extra virgin olive oils. This objective is reached by producing commercial yields while balancing the cost of inputs with the agricultural risk. The orchard management plan achieves this by relying on the in-house harvest and processing capacity developed on site.

The 2015/6 season is best summarised as a long dry spring and summer followed by rains at the end autumn. While the dry weather can be managed through the irrigation system, the excessive rains during harvest did impact the financial result due to the longer and more expensive harvest.

Fortunately, these same rains have led to an increase in dam levels and an expectation that water prices will be much lower than last year. The water market is being closely monitored by the management team and opening spot prices are much lower than the closing prices from last season albeit on low volumes.

The orchard is generally in good health and the orchard team will investigate replanting up to 10 hectares as the next phase of the rejuvenation programme. This will give us the opportunity to replace trees with varieties that have demonstrated an ability to produce high consistent yields in our region.

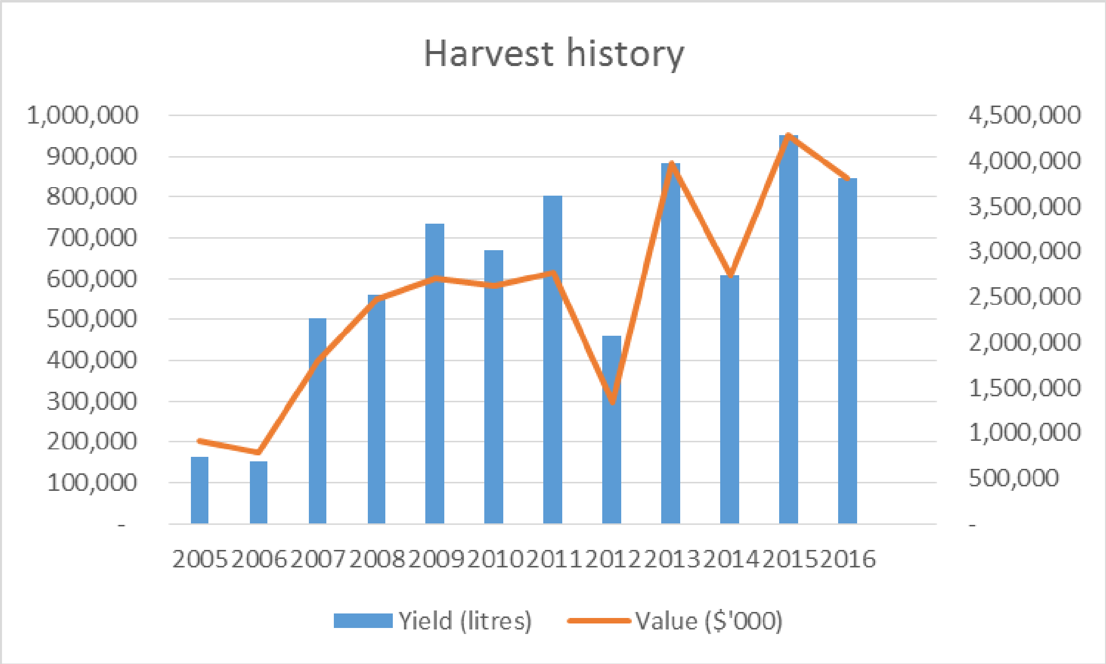
There are no plans for significant capital expenditure over the next twelve months on the orchard.

We will continue to comment on orchard activity in our quarterly announcements.

*Yield*

The orchard first came into commercial production in 2005 and the total volume of oil produced has increased since that time as set out in the graph below. The pattern of biennial bearing across the orchard is clearly visible. The low 2012 harvest was a consequence of the 2011 floods that had a detrimental impact on our orchard as well as others in the region.

Given that broad acre, irrigated farming of olive trees is still a relatively new crop in Australia, the Company has not yet determined the final maturity yields at the orchard, but the expectation is that the rolling average will continue to increase and the rejuvenation programme will add long term benefit as a consequence of more productive varieties.




The price received for the sale of the bulk extra virgin olive oil is also a factor in the total value of the harvest. Practically all oil produced at the orchard is sold to Boundary Bend Olives under the Olive Oil Supply Agreement in support of the Redisland and Cobram Estate brands. The pricing under this agreement was fixed for the first 4 million litres of production and it is expected that this limit will be surpassed as part of the 2017 harvest. The price will then be linked to the farm gate price of the packaged oil sold by Boundary Bend in Australia. The expectation is that over the longer term, this arrangement will add value to the price received for the sale of the oil.

As a benchmark for price, the bulk price for European oil is a key indicator. This price is currently in the region of Euro 3,100 per tonne of oil which is similar to the pricing two years ago albeit peaking in excess of Euro 4,000 per tonne around this time last year. This benchmark is strongly influenced by the levels of production around the Mediterranean region and we will include indicators of the expected harvests in the Company's quarterly reports.

**Looking forward**

The Company will continue to focus on strengthening the operations of the business and incorporating resilience into the balance sheet. As the future performance of the Company is tied to the annual harvest, it is prudent to expect that at some point in time the business may experience a poor harvest as a consequence of factors outside of management's control. The strength of the balance sheet will be important in minimising the impact of a poor harvest. Despite this conservative position, the Company does expect the average value of the annual harvest to increase in the medium term.

The Company is currently providing support to the reconstruction of a forestry MIS project covering an area in excess of 4,000 hectares of planted trees. The reconstruction is highly conditional upon several factors, but should it proceed, then AAP would expect to receive equity in the reconstructed project along with a management agreement in exchange for the support provided.

The Company remains open to other agricultural investments that would complement its current asset and skill base.

**Appreciation**

On behalf of the board, I thank our small management team who continue to manage the orchard at an incredibly high standard. The Directors take this opportunity to record their appreciation.