



# Australian Agricultural Projects Ltd

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## Full year 2014/15 Financial Results and Operating Review

ANNOUNCEMENT

31 AUGUST 2015

### Financial result

The Company advises that the trading result for the year ended 30 June 2015 was a profit of \$568,280 (2014: loss of \$459,963). The key components of this result are:

- Greater revenue of \$3,469,505 (2014: \$2,565,531) from the management of the Company's projects. This increase was directly related to the record 2015 harvest;
- No charge for discontinued operations (2014: \$267,726) as a consequence of the premises at Braeside being tenanted; and
- A downward revaluation of the orchard asset of \$161,933 (2014: upward revaluation of \$223,315) following a change to the assumption regarding the long term cost of water.

This is a pleasing result that reflects the current structure of the business subsequent to the sale of the Redisland brand in November 2012, a period that is summarised in the following table highlighting EBITDA and adjustments to net profit after tax from continuing operations in conjunction with the harvest yield.

	2015	2014	2013
	(Continuing business only)		
Harvest volume	Litres	Litres	Litres
VOOP	505,800	347,500	549,800
VOOP II	208,000	142,100	148,900
Peppercorn	237,900	119,100	185,500
Total harvest (litres)	951,700	608,700	884,200
	\$	\$	\$
<b>EBITDA attributable to AAP</b>	1,400,654	285,402	1,187,551
Depreciation	283,940	283,970	423,580
Interest	386,501	416,984	636,530
Revaluations/other add backs	161,933	(223,315)	434,489
Tax	-	-	613,620
<b>NPAT to AAP</b>	568,280	(192,237)	(920,668)

This summary illustrates the correlation between the annual harvest from the orchard and the Company's financial performance. While the Company's principal revenue is from the management of the three projects, these fees are largely determined by the volume of the harvest.

The Company experienced surplus operating cash flows for the 2015 year amounting to \$202,189, less than the 2014 operating cash flow surplus of \$598,103. Structured debt facilities, that is commercial bills and hire purchase contracts, were reduced by \$376,708 (2014: \$210,099) over the year.

The net financial position of the business has improved over the past twelve months resulting in the net assets per share increasing 0.37 cents per share to 3.32 cents per share. Importantly, the Company's finance facilities were reconfirmed in February of this year and the annual production covenant was satisfied. This has resulted in \$2,105,000 of CBA facilities being reclassified from current liabilities to non-current liabilities in the Statement of Financial Position. Current liabilities still includes \$920,000 of shareholders loans which are on a month to month basis and are still subject to renegotiation.

## **The olive orchards**

### *Operations*

As always, orchard operations are focused on maintaining the health of the orchard while being mindful of the importance of being a low cost producer of quality Extra Virgin Olive Oils. This year's performance, especially the logistics around the handling of a record harvest, confirms that the Company is well positioned to continue to achieve these two objectives.

The orchard is generally in good health and we will take this year to assess the rejuvenation pruning program that has been in place for the past two years. A small portion of the orchard, approximately two percent, will be replanted as a trial comparison with a view to improving the long term management and yield potential of the orchard. 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 is an expectation that there will be a full water allocation for the coming season and that there will be sufficient water available to operate the orchard. Orchard management are continuing to monitor the price of water as the opening spot price for water this season has continued at similar levels to the closing price last season when the spot price of temporary water increased suddenly from around \$125 per ML to \$200 per ML.

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*

Olives and olive oil farmed on a broad acre, irrigated basis is still a relatively new crop in Australia. The first plantings of this nature were completed in 1995 and the orchards the Company owns and manages were established in the period from 2002 to 2006. Since this time, cropping conditions, especially in the region where the Company's orchards are located have been extremely abnormal with drought in the years from 2006 to 2010 and then a one in a hundred year flood in 2011/2. Across this period, the total level of Australian production continues to trend upwards within the typical biennial cycle of the trees, and the level of productivity is increasing as well. This is certainly the experience at our own orchards.

The expectation is that the annual harvest at our orchard will continue to trend upwards over the medium term as the younger trees reach maturity and those sections of the orchard that have received remedial work subsequent to the floods re-enter production.

We are mindful that olives continue to be a biennial crop where total harvests fluctuate between "on" and "off" years. While the orchard management team endeavour to manage this process as much as practical, we expect this will always be a feature of the orchard and the industry as a whole. The 2015 harvest was an "on" year and as a consequence, 2016 is expected to be an "off" year.

### *Price*

The Company continues to sell its produce through the olive oil supply agreement that was established as part of the sale of the Redisland brand of extra virgin olive oil to Boundary Bend Limited in 2012.

The nature of this supply agreement is that after a period of a fixed price, the price the Company will receive for its oil will be linked to the farm gate price of the packaged oil sold by Boundary Bend. In this way, the Company remains exposed to the movements in the value of oil at the retail level as though it continued to operate its own brand.

The Company notes the recent high prices for bulk oil reflected on the main European markets as a result of the poor 2014 European harvest. Recent prices of Euro 4,300 per tonne compare with Euro 3,050 at the start of this calendar year. While the 2015 European harvest (due to commence in a couple of months) is expected to be stronger, the low levels of carry over stock are an indication that bulk prices may remain high as demand continues to exceed the supply of oils available. This increase in bulk price compounded by the weaker Australian dollar has only recently started to flow through to increased shelf prices in the major supermarkets. This upward pressure is expected to continue in the short to medium term.

## **Projects**

The Company continues to generate its revenues from the lease of its olive orchard and charging management fees on the three projects it operates.

Two of these projects are operated under the Managed Investment Scheme (MIS) regime and the Company retains its own licence in compliance with this role. While the total revenue from the sale of oil by these two projects is less than that originally projected at their conception in 2002 and 2004, they are both in a stable format. The ongoing success and viability of the projects are linked primarily to the total value of the harvest, that is yield multiplied by price, and as such, the Company's interests are aligned with those of the projects. This alignment is consistent with the Company's overall strategy of being a low cost producer of quality olive oils and as such has allowed for success in an environment where many other similar projects have failed.

These two MIS projects have an initial term to 2025 after which the lease and management agreements may be renegotiated for a further term.

## **Industry**

The Australian olive oil industry is still relatively young and it continues to develop. It should be remembered that total Australian production represents less than 1% of the world production of olive oil. The Company estimates that the total 2015 Australian harvest will be in the region of 20 million litres, up from approximately 13 million litres in 2014. This is consistent with the biennial nature of the industry.

The vast majority of this production is coming from orchards established in the period between 2000 and 2008 and since that time, there have been very few new plantings. With the return of the olive oil price to pre 2000 levels and with increased industry experience, it is likely that new plantings may again be considered in the near future.

As a general comment, the oil produced by Australia continues to be of excellent quality and this represents the advantage that Australia will continue to bring to the market. There remains a broad push for recognition of the additional benefits of Extra Virgin Olive Oil as well as increased diligence regarding the truth in labelling in an effort to extract value for this superior quality.

A large portion of Australian olive oil is marketed through the leading brands of Cobram Estate and Redisland which are both owned and operated by Boundary Bend Limited as a result of our sale of the Redisland brand to them in November 2012. It is into this market that the Company's supply agreement is linked.

## **Looking forward**

The Company will continue to focus on the strengthening of its balance sheet in the short term and consolidating the gains from the current year's harvest. We reiterate that the future performance of the Company will be tied to the annual harvest and, while the 2016 harvest is expected to be less than the 2015 harvest in line with the on / off cycle of harvests, we expect the total average harvest to continue to increase in the medium term.

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

## **Appreciation**

The board recognises the ongoing effort of the small team who manage the orchard at an incredibly high standard. The Directors take this opportunity to record their appreciation.