



# Australian Agricultural Projects Ltd

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## Full year 2016/17 Financial Results and Operating Review

ANNOUNCEMENT

31 AUGUST 2017

### Financial result

The Company advises that the trading result for the year ended 30 June 2017 was a profit of \$442,641 (2016: \$380,957) which is a pleasing result given the lower than expected harvest. The key components of this result are:

- A harvest of 710,400 litres (2016: 845,900 litres) from the orchard at Boort resulting in management and lease fees of \$2,658,993 (2016: \$ 3,069,736);
- Harvest and processing fees from orchards independent of the projects the Company manages;
- Lower than budgeted operating expenses principally as a consequence of lower than expected water prices although this benefit was partially offset by the longer than expected harvest; and
- An upwards revaluation of the orchard asset of \$216,075 (2016: \$189,318).

The table below summarises the annual financial performance over the past five years and details how business EBITDA is heavily reliant upon the size of the annual harvest. This relationship has been strong over the period, especially so as the price the Company receives for its oil has been fixed under the olive oil supply agreement.

	2017	2016	2015	2014	2013
<b>Harvest volume</b>	<b>Litres</b>	<b>Litres</b>	<b>Litres</b>	<b>Litres</b>	<b>Litres</b>
VOOP	409,600	493,400	505,800	347,500	549,800
VOOP II	160,700	210,700	208,000	142,100	148,900
Peppercorn	140,100	141,800	237,900	119,100	185,500
Total harvest (litres)	710,400	845,900	951,700	608,700	884,200
	\$	\$	\$	\$	\$
<b>EBITDA attributable to AAP</b>	823,931	819,599	1,400,654	285,402	1,187,551
Depreciation	(284,315)	(275,096)	(283,940)	(283,970)	(423,580)
Interest	(313,050)	(352,864)	(386,501)	(416,984)	(636,530)
Revaluations/other add backs	216,075	189,318	(161,933)	223,315	(434,489)
Tax			-	-	(613,620)
<b>NPAT to AAP</b>	442,641	380,957	568,280	(192,237)	(920,668)

The Company's surplus operating cash flows for 2017 amounted to \$334,022, similar to the previous year's surplus of \$382,872 despite the lower operating receipts resulting from the 2016 harvest being lower than the 2015 harvest. This surplus was utilised in the reduction of structured equipment finance of \$202,820 and the balance was reflected as an increase in cash at bank. The core CBA finance facilities and shareholder loans remain on an interest only basis. It is

expected that the operating cash surplus for the next twelve months will be less than that for the 2017 year as a consequence of the lower harvest.

The net tangible assets of 3.86 cents (2016: 3.57 cents) per share continues to improve with the ongoing consolidation in the balance sheet.

## **The olive orchards**

### *Operations*

The Company continues to be a low cost producer of extra virgin olive oil and to provide effective services to the projects it manages. This year the Company was also able to supply a cost effective harvest and processing solution to an independent local orchard which has been brought back into production.

The significant features of this season were:

- The lower than expected cost of water largely due to the wet winter and spring in 2016. This allowed the Company to acquire water at prices well below the initial management budget as well as to acquire approximately a third of the 2017/8 water requirement in advance;
- The late flowering that occurred in the second half of November 2016. This led to a later than normal maturing of the fruit as well as less time for oil accumulation which had a negative impact on oil yield as described below; and
- The longer than usual harvest which resulted from the attempt to maximise the maturity of the fruit as well as the additional time it took to complete the third party harvest.



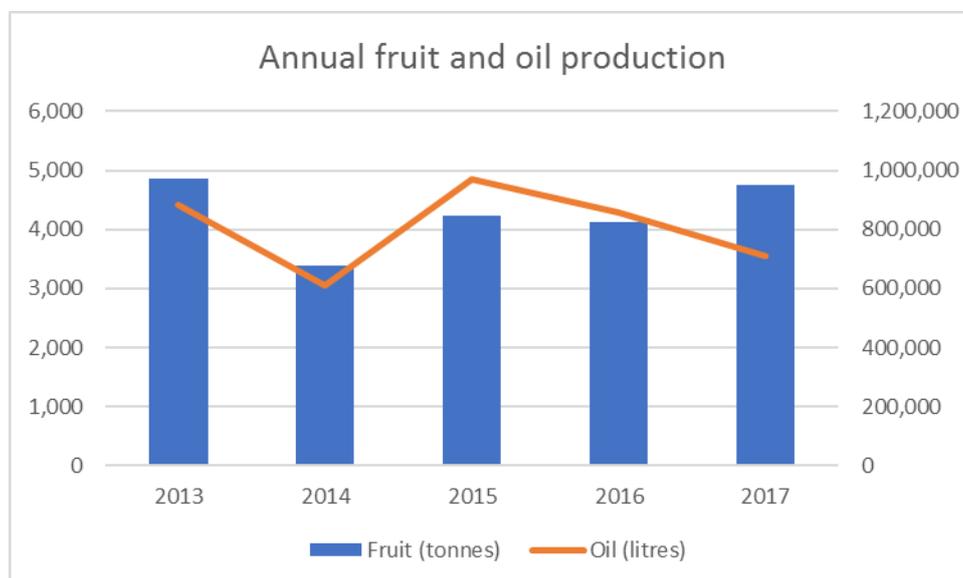
The orchard is generally in excellent health with the exception of the Barnea variety as previously reported. The replanting programme of this variety continues with up to 20,000 trees to be replanted this season. All of these trees are in the Victorian Olive Oil Project, the first planting by the Company in 2002. We expect it will take three to four years before these trees begin commercial production again, however, the contribution of the trees to be replanted has been reducing to a point where their removal will not have a significant impact on current production levels.

In addition to the replanting it is expected the Company will upgrade its filtration and irrigation control systems over the next season resulting in greater flexibility and control over the irrigation of the orchard.

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

## Yield

The total amount of fruit harvested this season was the second highest at the orchard (refer graph below) and that was despite some of the Barnea blocks having very low fruit yields. Unfortunately, due to the late flowering and ripening of the fruit, the oil accumulation during the season was very low resulting in the second lowest volume of oil produced over the past five years.



The final oil content (volume of oil divided by the weight of fruit) this season was 14.9% whereas the average for the previous four years had been 20.0%. Low oil content was experienced across all olive orchards in the region this season and is independent of management's efforts. Had this season's oil content been close to the 20.0% average, then we would have expected total oil volumes in excess of 900,000 litres. We expect this key driver to oil yields to return to normal levels next year.

All of the extra virgin olive oil produced has been accepted by Boundary Bend under the Olive Oil Supply Agreement and will be sold to them over the first ten months of this financial year. These sales will complete the fixed price component of the agreement and the 2018 harvest will trigger the farm gate pricing formula which is a price extrapolated from the weighted average retail price of sales of packaged goods by Boundary Bend. In this way the future price the Company will receive will be subject to movements in retail prices and local market conditions.

## Forestry Project

The Company made a bid during the year to manage a forestry MIS project as well as to acquire the underlying land in conjunction with the growers in the project. While the bid was not successful, we are pleased to note that the project has been able to successfully reconstruct itself along the lines we envisaged.

## Looking forward

The Company remains open to other agricultural investments that would complement its current asset and skill base but in the interim will continue to focus on the long term improvement to the underlying orchard assets. Consistent with this approach is the ongoing strengthening of the balance sheet in order to provide an environment where the agricultural risk associated with the business can be best managed.

## Appreciation

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