



Namoi Cotton Limited

(Formerly Namoi Cotton Co-operative Ltd)

ABN 76 010 485 588
www.namoicotton.com.au

Final Report

(Given to ASX under Listing Rule 4.3A)

Year Ended
28 February 2018



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Appendix 4E

The information contained in this report is for the full-year ended 28 February 2018 and the previous corresponding period, 28 February 2017.

RESULTS FOR ANNOUNCEMENT TO MARKET

	% Change	\$'000
Revenues from ordinary activities	Up 36%	to 483,938
Profit/(Loss) from ordinary activities after tax attributable to members	Up 2292%	6,769
Net profit/(loss) for the period attributable to members	Up 2292%	6,769

Dividends (distributions)	Amount per Security	Unfranked Amount per Security
Final distribution - (Refer Note 6)	1.90c	1.53c [#]
Interim distribution	-	-
Record date for determining entitlements to the final dividend	03 July 2018	

[#] Provisional amount pending conversion of remaining residual capital stock

Brief explanation of any of the figures reported above and short details of any bonus or cash issue or other item(s) of importance not previously released to the market:

Financial performance has improved significantly by \$6.5 million year on year underpinned by a 38% increase in the 2017 Australian crop size. Namoi Cotton's ginning and cotton seed volumes increased by 47% and 54% respectively year on year whilst Namoi Cotton Alliance's (NCA) lint procurement volumes increased by 25%. Cotton seed trading margins improved considerably through effective risk and position management, market volatility related trading opportunities and contractual seed yield management. Ginning margins were pressured through increased unit variable costs associated with reduced productivity from poorer quality seed cotton. The contribution from NCA improved from the prior year due to increased volumes and enhanced derivative position management. NCA's commodity packing volumes declined from the previous record year primarily due to reduced chickpea yields. Management of fixed costs remained a priority for the business throughout the financial year. These factors all combined to deliver a \$11.8m improvement from the prior year in net cash flows from operating activities.

For further explanation of the annual financial results please refer to the Review of Operations shown in Page 4 of this report.

Earnings per share	28 February 2018	28 February 2017
Basic earnings per ordinary security	5.3 cents*	0.2 cents*
Diluted earnings per ordinary security	4.7 cents*	0.2 cents*
Net tangible assets per security	28 February 2018	28 February 2017
Net tangible asset backing per ordinary security	103 cents*	97 cents*

* Adjusted retrospectively for conversion of grower member shares and Namoi capital stock for both periods.

The above specific requirements of Appendix 4E should be read in conjunction with the complete final report. This financial report has been audited.

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DIRECTORS' REPORT

Financial report for the year ended 28 February 2018

Your directors present their report on the consolidated entity consisting of Namoi Cotton Limited and the entities it controlled at the end of or during the year ended 28 February 2018.

Principal activities

Namoi Cotton is a public company listed on the Australian Stock Exchange Ltd that is domiciled in Australia. The principal activities of the entities in the economic entity during the course of the year were ginning and marketing cotton.

Restructure

On 26 September 2017 Grower Members and Namoi Capital Stockholders overwhelmingly approved the proposed restructure of Namoi Cotton from a Co-operative to an ASX listed public company with a single class of quoted ordinary shares for Grower Members and Namoi Capital Stockholders to be named Namoi Cotton Limited. The NSW Supreme Court approved the restructure on 3 October 2017 and on 10 October 2017 Namoi Cotton was incorporated as Namoi Cotton Limited, a fully listed public company. Refer to Note 20 for further details. The Board is now working through the details of a capital raising to enable implementation of Namoi Cotton's strategic plan.

2017-2018 full year financial results

Namoi Cotton recorded a consolidated net profit after tax from continuing operations of \$6.8 million for the full year ended 28 February 2018 (2017: a net profit of \$0.3 million). Positive cash flows from operating activities were recorded at \$17.3 million (2017: positive \$5.5 million). The consolidated net profit after tax and positive cash flow from operating activities result include \$1.6 million in pre-tax costs associated with the Restructure. The consolidated net profit after tax also includes the \$0.7 million non-cash fair value increment to the Grower Member Share liability (Refer Note 20).

Financial performance has improved significantly by \$6.5 million year on year underpinned by a 38% increase in the 2017 Australian crop size. Namoi Cotton's ginning and cotton seed volumes increased by 47% and 54% respectively year on year whilst Namoi Cotton Alliance's (NCA) lint procurement volumes increased by 25%. Cotton seed trading margins improved considerably through effective risk and position management, market volatility related trading opportunities and contractual seed yield management. Ginning margins were pressured through increased unit variable costs associated with reduced productivity from poorer quality seed cotton. The contribution from NCA improved from the prior year due to increased volumes and enhanced derivative position management. NCA's commodity packing volumes declined from the previous record year primarily due to reduced chickpea yields. Management of fixed costs remained a priority for the business throughout the financial year. These factors all combined to deliver a \$11.8m improvement from the prior year in net cash flows from operating activities.

Net assets during the period have increased by \$7.9 million (2017: increased by \$0.3 million) representing a net tangible asset backing of \$1.03 per ordinary share (2017: \$0.97 per ordinary share adjusted retrospectively due to the Restructure, refer table on page 17).

Dividends

The directors have announced that Namoi Cotton will pay a final dividend of 1.9 cents per ordinary share on 24 July 2018 which, assuming full conversion of Residual Capital Stock by the proposed record date of 3 July 2018, will equate to \$2.7 million and would represent a payout ratio of 40% of the net profit after tax. The dividend is expected to be franked to 19.6%. In the prior year, no distributions were declared per unit of Namoi Capital Stock. No interim dividend was declared in respect of ordinary shares (2017: no interim distribution was declared in respect of Namoi Capital Stock).

Review of operations

The overall 2017 Australian cotton crop production was recorded at 3.75 million bales (2016 crop: 2.71 million bales) representing a 38% increase. Sufficient cotton was planted to yield an estimated 4.5 million bales however, the exceptionally hot conditions in January and February 2017 combined with limited in-crop rainfall resulted in significant negative impacts to dryland crops and reduced yields of irrigated crops. Irrigated yields

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have averaged approximately 10 bales per hectare compared with 11.5 the previous year. In addition to the lower yields, the quality of the 2017 crop has been negatively impacted by the wet planting conditions, end of growing period weather and challenging defoliation parameters.

Namoi Cotton ginned 1,015,000 bales (including 100% of joint venture bales) of the 2017 crop (2016 crop: 689,000 bales) representing a 47% increase from the 2016 crop. The increased ginning volumes are directly related to the larger crop size. The quality of the cotton crop resulted in a reduction in ginning throughput rates to maximize cotton quality output and limit discounts for the grower. The slower throughput rates have been the primary driver of a 11% increase in unit ginning variable costs from the prior year reducing ginning gross margins. Overall, ginning contribution improved by 32%.

Namoi Cotton has continued to invest in its ginning network to improve service offerings to growers and drive productivity improvements in the ginning business completing significant projects prior to the commencement of ginning of the 2017 crop. These projects included a \$1m upgrade of the Merah North gin yard doubling its static storage capacity combined with a press upgrade, the addition of a fourth gin stand and associated cleaning equipment combined with a press upgrade at Boggabri catering for the expanding southern upper Namoi valley production, the addition of a third gin stand and associated cleaning equipment at North Bourke and an upgrade to lint cleaning equipment at the Ashley gin. Post the ginning season, Namoi Cotton has commenced significant projects at its Trangie gin with the addition of a fourth gin stand and associated cleaning equipment combined with a press upgrade to support incremental volumes along with a significant upgrade to the cleaning and moisture capacity equipment of the Wathagar cotton gin. Namoi Cotton's continued commitment to workplace health and safety as a priority has resulted in a 35% improvement in our lost time injury frequency rate compared to the previous year.

Our cotton seed trading business shipped and handled 266,000Mt (2016 crop: 172,000Mt) with contribution from the seed business a strong contributor to the overall results increasing by \$8.0 million from the previous year. Seed prices remained firm into the commencement of ginning supported by the dry conditions and Chinese demand. Market prices in China along with a slowing of Chinese demand associated with the continuing Bollgard III cotton seed import restrictions resulted in cotton seed being sold back into the domestic market and slowed the movement of cotton seed from gin sites pressuring prices in the second half of the ginning period and through to the end of the financial year. The lower prices have slowed contracting of 2018 crop ginning volumes as growers wait for improved price levels. Effective risk management combined with contractual yield management have significantly widened cotton seed trading margins from the previous year. In the second half of the financial year Namoi Cotton has invested in a significant increase in cotton seed storage capacity at its Hillston and Trangie gins to provide support to our trading business, improved margin opportunities and storage options for growers in this lower priced environment.

Namoi Cotton's 15% interest in the Cargill Oilseeds Australia business contributed a loss of \$1.4 million (2017: loss of \$0.8 million). Whilst year on year volumes improved for both the Narrabri (cotton seed) and Footscray (canola) crush facilities, margins were significantly impacted. Early year high priced cotton seed combined with competing market challenges in the feed sector for meal and hulls reduced cotton seed crush margins. Aggressive origination competition for canola seed combined with soybean meal imports and oil price reductions due to alternate stocks and supplies lowered canola crushing margins.

NCA's total cotton lint marketing volumes procured for the 2017 season were 636,000 bales (2016 season: 507,000 bales). This reflects a 25% improvement in volume traded which was largely associated with larger Australian production. Lint marketing gross margins continued to be under pressure through competition to secure cotton. Improved derivative position management throughout the year however ensured this margin pressure was more than offset in overall marketing contributions. This resulted in a \$0.45 million improvement in Namoi Cotton's share of NCA's lint business in the financial results over the prior year.

NCA's commodity packing business packed 168,000Mt in 2017 (2016 crop: 226,000Mt) including principally chickpeas and cotton seed. Packing volumes declined from the record volumes achieved in the preceding year impacted by the slowdown in cotton seed demand from China, reduced chickpea yields impacted by adverse agronomic conditions and the Indian government's import policy decisions implementing a 60% import tariff restriction on Australian chickpeas. Chickpea packing volumes were supported by carryover 2016 crop packing and new 2017 crop Bangladesh and Pakistan demand. The Indian situation however leaves more than 30,000Mt of chickpeas in stock to be packed in the FY 2018/19 financial year.

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Finance costs have reduced by \$0.05 million, with the continuing low interest rate environment prevailing throughout the period and further reductions to term debt. Namoi Cotton completed a term debt repayment of \$5.5 million during the financial year. Term debt at balance date stands at \$42 million with further amortisation anticipated from free cash flow from operating activities in FY 2018/19.

During the year we continued implementation of our strategic plan to grow the Namoi Cotton business including completing the acquisition of Twynam Agricultural Group Pty Ltd's 50% participating interest in the Australian Classing Services joint venture for \$0.7 million and PJ & JM Harris Pty Ltd's 25% participating interest in the Moomin Ginning Company joint venture for \$2.0 million. These acquisitions are anticipated to deliver increased earnings before interest, taxation and depreciation of \$0.4 million in the year ending 28 February 2019.

Likely developments

2018 Season

The final cotton area planted was 371,000 hectares irrigated and 81,000 hectares dryland. Since planting through late February/early March 2018 the rainfall normally associated with La Niña conditions has not eventuated. The weather conditions in the early part of 2018 have been more favourable than those of the same period in 2017 with not as prolonged excessive heat periods and cooler overnight temperatures and as a result the fruit retention of irrigated crops looks very encouraging. Water shortages for irrigated cotton in the St George, Dirranbandi areas and some parts of the Gwydir valley will impact overall production yield to conserve irrigation water supplies. The dryland planting has been more heavily impacted due to no rainfall. Early ginning results would suggest an improvement upon the poor yields associated with the 2017 crop. Considering all these factors, we estimate the 2018 Australian cotton crop will at this stage still produce approximately 4.6 million bales.

Namoi Cotton anticipates that it will gin between 1.10 million and 1.20 million bales from the 2018 crop, including 100% of joint venture gins, representing an improvement of between 8% and 18% from the previous year.

It is expected that our cotton seed trading volumes will increase proportionally in line with the increase in ginning volumes. The industry carryover of 2017 crop cotton seed combined with the inability to export Bollgard III cotton seed to China from the middle of 2017, the lower value of cotton seed and likely reduced 2018 crop seed yields will likely to pressure cotton seed contributions over the course of the 2018 crop.

NCA's lint marketing volumes are estimated to be between 700,000 and 800,000 bales from the 2018 crop, representing an increase of between 10% and 26% from the prior crop. Significant competition for marketing volumes is anticipated to continue to pressure marketing gross margins in 2018 albeit they remain supported by strong demand from Bangladesh and healthy forward Chinese sales. Gross margin recovery is expected to be achieved through improved supply chain organization and logistics. NCA's containerized commodity packing volumes are forecast to be consistent with the current year, supported by Autumn/Winter rainfall and a return to improved yields in chickpea production.

Namoi Cotton's operations in 2018 are predicted to deliver another strong financial result from incremental volume increases. Improved unit contributions are also expected to flow from the commissioning of key gin upgrades and the assumption of improved seed cotton quality from the 2018 crop. Consistent earnings are anticipated from Namoi Cotton's 51% investment in NCA, whilst lower contribution is forecast from the cotton seed trading business.

2019 Season

The lack of general rainfall since planting of the 2018 crop stretched water supplies with some production areas being short of water and sacrificing crop. Other areas have significantly drawn down on farm storage water reserves and public storage water allocations resulting particularly in the Northern basin of the Murray Darling System low current levels of available irrigation water. In the Southern basin, significant water has also been utilised, however, public storages are better placed than their Northern Basin counterparts and will benefit from the looming winter snow conditions. Based on the current available irrigation water, our current estimate of the 2019 Australian cotton crop would reflect 3.0 million bales of production underpinned by strong production in the Lachlan, Murrumbidgee and Murray valleys. It is anticipated a repeat of the dry winter conditions from 2017 will not be repeated in 2018 and winter rainfall will improve this outlook.

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With the northern cotton valleys water availability more negatively impacted than the southern cotton valleys, the current outlook would reflect lower ginning volumes in 2019 for Namoi Cotton given most infrastructure is in the central and northern cotton valleys. Namoi Cotton will be focused on maximising market share in both ginning and cotton seed trading volumes along with further operational efficiencies. NCA will be targeting increased market share through greater competitive focus in the southern valleys, effective position management and a proactive export sales management campaign. The commodity packing business will be looking to increase volumes and broader commodity exposure. A strong focus will be on maximising financial performance in the 2019 season.

Significant events after balance date

There have been no significant events after balance date other than as disclosed in Note 24 in this report.

Significant changes in the state of affairs

There has been no significant change in the state of affairs of the consolidated entity during the year other than as disclosed elsewhere in this report.

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Directors

The names, qualifications and experience of the company's directors that held office throughout the financial year and up to the date of this report, unless otherwise indicated, are as follows.

Stuart C Boydell, Chairman, Non-executive Director, 71

Mr. Boydell joined the board of directors as a grower director in June 1994 and has been chairman since December 1995. He was most recently re-elected at the 2017 general meeting. He has grown cotton on "Cooma" near Moree, NSW for over 20 years and is chairman of the remuneration committee and a member of the audit and compliance committee and marketing and financial risk management committee.

Richard Anderson, Non-executive Director, 72, OAM, B. Com, FCA, FCPA

Mr. Anderson joined the board as a non-grower director in July 2001. He was most recently re-elected at the 2016 general meeting. Mr Anderson previously held the position of Managing Partner of PricewaterhouseCoopers in Queensland. He is the chairman of both the audit and compliance committee and the marketing and financial risk management committee and is a member of the remuneration committee. During the past three years Mr Anderson has held ASX listed company directorships at Data#3 Limited (current – appointed 27 October 1997) and Lindsay Australia Ltd (current – appointed 16 December 2002). He is also currently president of the Guide Dogs for the Blind Association of Queensland.

Michael Boyce, Non-executive Director, 75, FCA, FAICD, B Com, HDA

Mr. Boyce joined the board as a non-grower director in October 2002. He was most recently re-elected at the 2015 general meeting. He was the founding partner of BOYCE Chartered Accountants. He is currently a director of Monbeef Pty Ltd, Hazeldean Pty Ltd, Fugen Hardware Group and Birdnest Pty Ltd. Mr. Boyce is a member of the audit and compliance committee and the remuneration committee.

Ben Coulton, Non-executive Director, 63

Mr Coulton joined the board of directors in July 2006 as a grower director. He was most recently re-elected at the 2015 general meeting. Mr Coulton has been growing cotton in the MacIntyre region since 1976. He brings with him extensive industry and commercial expertise. Mr Coulton resigned from the board on 31 January 2018.

Glen Price, Non-executive Director, 62, B Rural Science (Hons), GAICD

Mr Price joined the board of directors in July 2009 as a grower director. He was most recently re-elected at the 2015 general meeting. Mr Price grows cotton in both the Mungindi and St George regions and has been involved in the cotton industry since 1978. He brings with him extensive industry and commercial expertise. Mr. Price is a member of the marketing and financial risk management committee.

Robert L Green, Non-executive Director, 61, B Bus (QAC), MAICD

Mr Green was appointed to the Board as a non-grower director on 27 May 2013. He was most recently re-elected to the Board at the 2016 general meeting. Mr Green has considerable board relevant experience working as a Senior Executive and General Manager in the Australian and International agricultural industry for more than 28 years. Key areas of experience include trading, marketing, operations management and business development, including his current role as Chief Executive Officer of Louis Dreyfus Commodities Australia Pty Ltd. Mr Green is a member of the audit and compliance committee and the remuneration committee. He has been past President of the Australian Oilseeds Federation and Australian Grain Exporters Association.

Tim Watson, Non-executive Director, 56, GAICD

Mr Watson joined the Board in December 2014 as a grower director. He was elected to the Board at the 2015 general meeting. He grows cotton in the Hillston Region and has been involved in the cotton industry since 2000 and is a member of the Hillston District Irrigators Association and the Lachlan River Customer Service Committee. Currently he is also a representative of the Lachlan Valley Water Users Association. He brings with him extensive industry and commercial expertise for the cotton and general agricultural industry. He was also recognised by the cotton industry as the recipient of the 2014 Australian Cotton Grower of the Year Award.

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Company secretary

Bailey Garcha, 44, BLLB, BFA, Dip Legal Studies, Dip Legal Practice, ACIS, GAICD

Mr Garcha joined Namoi Cotton in July 2003 and has previously held legal and commercial positions with Minter Ellison Lawyers, Sparke Helmore Lawyers and NSW Treasury.

Board & committee meeting attendance

Meetings held and attended by each of the directors during the financial year were as follows:

	Directors' Meetings ¹	Committee Meetings ¹		
		Audit and Compliance	Marketing and Financial Risk Management	Remuneration
SC Boydell (Chairman)	22	4	4	4
RA Anderson	19	4	4	4
M Boyce	18	3	-	3
B Coulton (resigned 31 January 2018)	20	-	-	-
G Price	21	-	4	-
R Green	22	4	-	4
T Watson	22	-	-	-
Total number of meetings held	22	4	4	4

¹ All board members were available to attend directors' meetings and relevant committee meetings. Prior to resigning B Coulton was available to attend 20 meetings of 20 Directors' meetings held.

Committee membership

As at the date of this report, the company had an audit and compliance committee, a marketing and financial risk management committee and a remuneration committee.

Members acting on the committees of the Board during the year were:

Audit and Compliance	Marketing and Financial Risk Management	Remuneration
RA Anderson (Chairman)	RA Anderson (Chairman)	SC Boydell (Chairman)
M Boyce	SC Boydell	RA Anderson
SC Boydell	G Price	R Green
R Green		M Boyce

There have been no changes to the CEO or other KMP in the period after the reporting date and prior to the date when this financial report was authorised for issue.

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Remuneration report (audited)

This remuneration report outlines the director and executive remuneration arrangements of the company and the consolidated entity in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report Key Management Personnel (KMP) of the group are defined as those having the authority and responsibility either directly or indirectly for planning, directing and controlling the major activities of the company and the group, including any director of the company.

a) Details of Directors and Executives

Directors

Mr S C Boydell	Chairman, non-executive
Mr R A Anderson	Director, non-executive
Mr M Boyce	Director, non-executive
Mr B Coulton	Director, non-executive (resigned 31 January 2018)
Mr G Price	Director, non-executive
Mr R Green	Director, non-executive
Mr T J Watson	Director, non-executive

Executives

Mr J Callachor	Chief Executive Officer (CEO)
Mr S Greenwood	Chief Financial Officer (CFO)
Mr D Lindsay	General Manager – Grower Services and Marketing
Mr B Garcha	General Counsel and Company Secretary
Mr S McGregor	Chief Operations Officer (COO)

b) Compensation of KMP

Compensation Policy

The performance of Namoi Cotton depends upon the quality of its directors and executives. To prosper and deliver maximised stakeholder returns, Namoi Cotton must attract, motivate and retain highly skilled and qualified directors and executives.

To this end, Namoi Cotton embodies the following principles in its compensation framework:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to company performance and shareholder value;
- A portion of executive compensation is 'at risk', dependent upon the company and individual executive meeting pre-determined performance benchmarks; and
- Establish performance hurdles in relation to variable executive compensation.

Remuneration Committee

The remuneration committee of the board of directors of Namoi Cotton is responsible for determining and reviewing compensation arrangements for all KMP, including the directors, the CEO and other members of the senior executive team.

The remuneration committee assesses compensation arrangements of KMP annually, by reference to relevant employment market conditions and available independent external remuneration data. The overall objective of this assessment is to ensure maximisation of stakeholder returns from the retention of a high quality board and executive team employees.

Compensation Structure

In accordance with best practice corporate governance, the structure of non-executive director and executive compensation is separate and distinct.

i) Non-executive Director Compensation

Objective

The board seeks to set aggregate compensation at a level that provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure

The previous co-operative rules specified that the Members at each general meeting shall determine compensation of non-executive directors. The latest amendment was at the general meeting held on 27 July 2005 when the Members approved an aggregate compensation of \$310,000 per year plus applicable committee fees. The new Constitution for Namoi Cotton Limited provides for aggregate directors' fees of up to \$850,000 per annum to be paid to Directors. It is proposed following the Restructure the current fees paid to the Directors will be reviewed to determine if they are consistent with market rates for an ASX listed company of the size and complexity of Namoi Cotton under its new governance structure. Any increase in fees paid to the Directors following the review will be accommodated within the aggregate cap set out in the Constitution.

The amount of compensation and the manner in which it is apportioned amongst directors is reviewed annually. The board may consider advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company. An additional fee (\$2,500 per committee, \$7,500 to chair a committee) is also paid for each board committee on which a director sits. The payment of additional fees for serving on a committee recognises the additional time commitment required by directors who serve on one or more sub-committees.

Non-executive directors have been encouraged by the board to hold shares in the company purchased by the director on market.

Any Director in office at 10 October 2017 which has or will serve two terms is entitled to a retirement benefit equivalent to two year's remuneration based on their remuneration for the 2017-18 financial year.

The compensation of non-executive directors for the period ending 28 February 2018 is detailed on page 14 of this report.

ii) Executive Compensation

Objective

The company aims to reward executives with a level and mix of compensation commensurate with their position and responsibilities within the company so as to:

- reward executives for performance against targets set by reference to appropriate benchmarks;
- align the interest of executives with those of shareholders;
- link rewards with the strategic goals and performance of the company; and
- ensure total compensation is competitive by market standards.

Structure

Employment agreements have been negotiated with the CEO and other KMP. Details of these contracts are provided on pages 12 and 13 of this report.

Each KMP agreement includes compensation which consists of the following key elements:

- Fixed Compensation;
- Variable Compensation comprising Short Term Incentives (STI)

The remuneration committee establishes the proportion of fixed and variable (potential STI) compensation for KMP.

Fixed Compensation

Objective

The remuneration committee reviews fixed compensation annually. The process consists of a review of companywide, business unit and individual performance, relevant internal and market comparative compensation and, where appropriate, independent external remuneration data of equivalent industry sectors.

Structure

Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash, superannuation, remote rent, motor vehicles, housing, income protection insurance and any associated fringe benefits. The form chosen will be optimal for the recipient without creating undue cost for the company.

iii) Variable Compensation – STI

Objective

The objective of the STI program is to link the achievement of the company's operational and financial targets with the compensation received by the executives charged with meeting those targets.

Structure

Actual STI payments depend on the achievement of specific operating targets set at the beginning of the financial year. The operational targets consist of a number of Key Performance Indicators (KPI's) covering both financial and non-financial measures of performance.

STI compensation includes an 'at risk' element which constitutes fifty percent of the executives' overall available STI compensation. This element is wholly dependent on Namoi Cotton achieving a pre-determined level of financial performance, is discretionary, is additional to the fixed compensation noted below and is not subject to any predefined KPI's.

The remaining fifty percent of each executive's STI compensation was dependent upon the achievement of financial and non-financial KPI's in the prior year. The review of individual performance usually occurs within two months of the balance date. The financial and non-financial KPI's include but are not limited to critical operational, profit, safety and developmental targets.

KMP STI payments are ultimately subject to the discretion of the remuneration committee. However, when taking into account this discretion, the remuneration committee considers the above criteria in determining the appropriate allocation.

The senior management team in aggregate are entitled to a short-term incentive payment of \$100,000 due to the successful completion of the Restructure, this is by virtue of a portion of the normal short-term incentive program. The incentive payments included in the 2018 cash bonus payable to senior management are: J Callachor \$60,000, B Garcha \$18,000 and S Greenwood \$20,000.

For the 2018 financial year, 78% (2017: 0% amounting to \$nil) of the STI compensation (both components) was accrued in the financial statements.

iv) Contract for Services

Major provisions of KMP employment agreements are set out below.

Mr Jeremy Callachor, Chief Executive Officer

- Term of agreement - open
- Fixed compensation, inclusive of superannuation, for the year ended 28 February 2018 of \$450,000 (28 February 2017: \$450,000)
- Variable compensation, for the year ended 28 February 2018 of \$120,000 (28 February 2017: \$nil)
- Payment of a retention benefit in the event of takeover, acquisition or merger, equal to 50% of annual commencing fixed compensation
- Payment of a termination benefit on termination equal to 50% of annual commencing fixed compensation
- Period of notice to be given by employee or employer - 12 weeks

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Mr Stuart Greenwood, Chief Financial Officer

- Term of agreement – open
- Fixed compensation, inclusive of superannuation, for the year ended 28 February 2018 of \$266,500 (28 February 2017: \$260,595)
- Variable compensation, for the year ended 28 February 2018 of \$37,500 (28 February 2017: \$nil)
- Payment of a retention benefit in the event of takeover, acquisition or merger, equal to 1.1 times annual fixed compensation
- Payment of a termination benefit on termination equal to 50% of annual fixed compensation
- Period of notice to be given by employee or employer – 4 weeks

Mr Bailey Garcha, General Counsel and Company Secretary

- Term of agreement – open
- Fixed compensation, inclusive of superannuation, for the year ended 28 February 2018 of \$271,500 (28 February 2017: \$265,423)
- Variable compensation, for the year ended 28 February 2018 of \$35,000 (28 February 2017: \$nil)
- Payment of a retention benefit in the event of takeover, acquisition or merger, equal to 1.1 times annual fixed compensation
- Payment of a termination benefit on termination equal to 50% annual fixed compensation
- Period of notice to be given by employee or employer – 4 weeks

Mr David Lindsay, General Manager - Grower Services and Marketing

- Term of agreement – open
- Fixed compensation, inclusive of superannuation, for the year ended 28 February 2018 of \$292,500 (28 February 2017: \$286,307)
- Variable compensation, for the year ended 28 February 2018 of \$30,000 (28 February 2017: \$nil)
- Payment of a retention benefit in the event of takeover, acquisition or merger, equal to 1.1 times annual fixed compensation
- Payment of a termination benefit on termination equal to 50% of annual fixed compensation
- Period of notice to be given by employee or employer – 4 weeks

Mr Shane McGregor, Chief Operations Officer

- Term of Agreement - open
- Fixed compensation, inclusive of superannuation, for the year ended 28 February 2018 of \$300,111 (28 February 2017: \$293,725)
- Variable compensation, for the year ended 28 February 2018 of \$50,000 (28 February 2017: \$nil)
- Payment of a retention benefit in the event of takeover, acquisition or merger, equal to 1.1 times annual fixed compensation
- Payment of a termination benefit on termination equal to 50% of annual fixed compensation
- Period of notice to be given by employee or employer – 4 weeks

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Details of the nature and amount of each element of the emoluments of each director and each of the executive officers of Namoi Cotton and the consolidated entity for the financial year are as follows:

v) Compensation of Key Management Personnel for the Year Ended 28 February 2018

Year ended 28 February 2018

	Short-term Employee benefits			Post-employment Benefits		Long-term Benefits	Termination Benefits	Total	% Performance Related
	Salary & Fees	Cash Bonus ⁴	Non-Monetary Benefits	Superannuation	Retirement Benefits ¹	Employee Leave Benefits ²			
Directors									
SC Boydell	75,288	-	-	7,152	-	-	-	82,440	-
RA Anderson	60,231	-	-	5,722	-	-	-	65,953	-
M Boyce	47,683	-	-	4,530	-	-	-	52,213	-
B Coulton ³	102,442	-	-	3,082	(70,000)	-	-	35,524	-
G Price	37,644	-	-	3,576	-	-	-	41,220	-
R Green	47,683	-	-	4,530	4,750	-	-	56,963	-
T Watson	35,135	-	-	3,338	10,500	-	-	48,973	-
Executives									
J Callachor	430,941	120,000	(941)	22,465	-	9,302	-	581,767	20.6%
D Lindsay	266,548	30,000	608	21,010	-	5,181	-	323,347	9.3%
B Garcha	254,544	35,000	1,771	16,993	-	4,750	-	313,058	11.2%
S Greenwood	228,645	37,500	31,974	16,637	-	4,173	-	318,929	11.8%
S McGregor ²	289,772	50,000	5,423	23,238	-	(2,101)	-	366,332	13.6%
	1,876,556	272,500	38,835	132,273	(54,750)	21,305	-	2,286,719	

¹ Movement in accrued retirement benefits for the year ended 28 February 2018.

² Negatives relate to the taking of accumulated leave greater than one year's entitlement.

³ Resigned on 31 January 2018 and was paid previously accrued retirement benefits.

⁴ Includes Restructure bonus as per variable compensation disclosure in Directors' Report.

vi) Compensation of Key Management Personnel for the Year Ended 28 February 2017

Year ended 28 February 2017

	Short-term Employee benefits			Post-employment Benefits		Long-term Benefits	Termination Benefits	Total	% Performance Related
	Salary & Fees	Cash Bonus	Non-Monetary Benefits	Superannuation	Retirement Benefits ¹	Employee Leave Benefits ²			
Directors									
SC Boydell	75,288	-	-	7,152	-	-	-	82,440	-
RA Anderson	60,231	-	-	5,722	-	-	-	65,953	-
M Boyce	47,683	-	-	4,530	-	-	-	52,213	-
B Coulton	35,135	-	-	3,338	-	-	-	38,473	-
G Price	37,644	-	-	3,576	-	-	-	41,220	-
R Green	47,683	-	-	4,530	14,250	-	-	66,463	-
T Watson	35,135	-	-	3,338	7,000	-	-	45,473	-
Executives									
J Callachor ²	432,803	-	(2,044)	17,974	-	(12,312)	-	436,421	-
D Lindsay ²	257,863	-	14,884	24,176	-	(1,730)	-	295,193	-
B Garcha	249,482	-	816	16,599	-	7,522	-	274,419	-
S Greenwood	223,874	-	17,763	14,825	-	4,515	-	260,977	-
S McGregor	270,305	-	4,047	25,283	-	4,960	-	304,595	-
	1,773,126	-	35,466	131,043	21,250	2,955	-	1,963,840	

¹ Movement in accrued retirement benefits for the year ended 28 February 2017.

² Negatives relate to the taking of accumulated leave greater than one year's entitlement.

Namoi Cotton Limited (formerly Namoi Cotton Co-operative Ltd)

c) Shareholdings of KMP¹

Year ended 28 February 2018	Balance held 1 March 2017		Net Change Other		Net Change Restructure			Balance held 28 February 2018		
	CCU's	Grower Member Shares	CCU's	Grower Member Shares	CCU's	Grower Member Shares	Ordinary	CCU's	Grower Member Shares	Ordinary
Directors										
SC Boydell (Chairman)	555,883	800	-	-	(555,883)	(800)	714,387	-	-	714,387
RA Anderson	-	-	-	-	-	-	-	-	-	-
M Boyce	775,272	-	-	-	(775,272)	-	775,272	-	-	775,272
B Coulton	-	800	-	-	-	(800)	158,504	-	-	158,504
G Price	373,292	1,600	-	-	(373,292)	(1,600)	690,300	-	-	690,300
R Green	-	-	-	-	-	-	-	-	-	-
T Watson	407,720	800	141,405	-	(549,125)	(800)	707,629	-	-	707,629
Executives										
J Callachor	4,000	-	-	-	(4,000)	-	4,000	-	-	4,000
D Lindsay	25,000	-	-	-	(25,000)	-	25,000	-	-	25,000
B Garcha	-	-	-	-	-	-	-	-	-	-
S Greenwood	6,000	-	-	-	(6,000)	-	6,000	-	-	6,000
S McGregor	2,000	-	-	-	(2,000)	-	2,000	-	-	2,000
	2,149,167	4,000	141,405	-	(2,290,572)	(4,000)	3,083,092	-	-	3,083,092

No Ordinary Shares, CCU's or Grower Member Shares were granted as remuneration or issued on exercise of an option.

¹Includes CCU/shares/ordinary shares that are held directly, indirectly and beneficially by KMP.

All shares above are held in the disclosing parent entity Namoi Cotton Limited.

All ordinary share transactions by the company with KMP are made through the ASX on normal commercial terms.

d) Loans to KMP

The following loans remain outstanding from KMP as part of the Employee Incentive Scheme that was suspended in August 2004 (refer to note 20 to the financials). The amounts owed by KMP at year end were D. Lindsay \$2,630 (2017: \$2,630) and S. McGregor \$nil (2017: \$30). These amounts will be repaid by 31 May 2018.

e) Marketing and ginning transactions and balances with KMP

Transactions with directors and their related parties were in accordance with the constitution, under terms and conditions applicable to all members. Under the former Co-operative Rules, grower directors were required to conduct a minimum of 20% of their total cotton business with Namoi Cotton. In accordance with that rule, Directors entered into marketing contracts and ginning contracts with Namoi Cotton. Amounts paid/received or payable/receivable from/to directors and their respective related parties were as follows:

Name	Consolidated and Parent entity					
	Cotton Purchases		Ginning Charges Levied		Grain & Seed Purchases	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
	\$	\$	\$	\$	\$	\$
Mr SC Boydell	1,381,884	308,479	157,433	38,633	183,672	64,388
Mr B Coulton	6,810,479	3,489,599	1,134,241	569,508	1,477,306	899,036
Mr G Price	2,915,452	2,120,215	353,515	267,297	452,466	395,138
Mr T Watson	614,611	752,413	610,211	543,066	252,951	455,345
	11,722,426	6,670,706	2,255,400	1,418,504	2,366,395	1,813,907

The nature of the terms and conditions of the above other transactions with directors and director related entities are consistent with the terms of Namoi Cotton's standard products, and are as follows:

- Marketing contracts require delivery of a quantity of lint cotton. The contract price per bale may be fixed in Australian or United States dollars, determined under a pool arrangement, set as a guaranteed minimum price or by way of basis fixations, cotton futures and foreign currency hedging. Price is adjusted for grade. Payment may be made by Namoi Cotton either within 14 days of ginning, or on a deferred schedule. The actual sales to spinning mills are made by the NCA joint venture.
- Ginning contracts require the delivery of a quantity or acreage of seed cotton gin landed. The price is a fixed amount per bale. Payment is either effected by the grower as an offset against marketing proceeds, or collected from the marketing merchant in the case of contract ginning with Namoi Cotton.
- Seed contracts require the delivery of a quantity or acreage of seed gin landed. The price is a fixed amount per bale. Payment is either made by Namoi Cotton in conjunction with marketing proceeds, or in conjunction with ginning costs in the case of contract ginning with Namoi Cotton. Growers have the option of retaining their seed for a handling fee.

f) Other transactions with KMP

Directors and director related entities also entered into transactions with the economic entity which occurred within a normal customer or supplier relationship on terms and conditions no more favourable than those which it is reasonable to expect the entity would have adopted if dealing with the director or director-related entity at arm's length in the same circumstances, which do not have the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report, or the discharge of accountability by the directors. These transactions include:

- Buybacks of marketing contracts as a result of production shortfalls;
- Currency, cotton futures, options and brokerage costs, losses and profits charged or credited directly to the account of the director;
- Purchase of grower supplies;
- Marketing and ginning rebate;
- Costs associated with the provision of crop finance; and
- Grower member share fixed capital entitlement in aggregate \$nil (2017: \$10,800).

g) Compensation Options

Namoi Cotton does not currently and has not historically offered any options over its shares. As such, no options have either been granted or exercised during the period or are on offer at the end of the period.

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Group financial performance and position

The following table highlights key components of the group's financial performance for the last 5 years.

	2018	2017	2016	2015	2014
Earnings per CCU (cents)		0.2	5.7	(0.1)	(70.7)
Distribution per CCU (cents) ¹		-	0.5	-	-
CCU/share price at year end (cents)		49.0	34.0	31.0	29.0
CCU buyback average (cents)		N/a	N/a	N/a	N/a
Earnings per Ordinary Share (diluted)	5.3				
Dividend per Ordinary Share (cents/share)	-				
Share price at year end (cents)	53.0				
Net assets (\$m)	131.8	123.8	124.6	118.8	109.9
Net assets per CCU (cents)		112.7	112.5	113.4	110.4
Net assets per ordinary share (cents) - basic ²	103.4	97.2			
Net assets per ordinary share (cents) - diluted ³	92.4	86.8			

¹ Represents amounts paid during the financial year (refer note 6).

² Ordinary shares on issue at balance date. Calculated retrospectively for 2017 (127.4m).

³ Diluted for conversion of residual capital stock to ordinary shares. Calculated retrospectively for 2017 (142.7m).

Directors' interests in ordinary shares of the company

As at the date of this report, the interest of the directors and their related parties in the ordinary shares of the company were as set out on page 15.

Environmental performance & regulation

The directors regularly review the business activities of the company to ensure it operates within the environmental laws established by regulatory authorities.

Indemnification and insurance of directors and officers

Under the Constitution, every person who is or has been a director of the company is indemnified, to the maximum extent permitted by law, out of the property of the company against any liability to another person (other than the company) as such a director unless the liability arises out of conduct involving any negligence, default, breach of duty or breach of trust of which that person may be guilty in relation to the company.

During the financial year, Namoi Cotton has paid a premium in respect of a contract providing insurance for every person who is or has been a director or officer against losses arising from any actual or alleged breach of duty, breach of trust, neglect, error, misstatement, misleading statement, omission, breach of warranty of authority, or other act done or wrongfully attempted, or any liability asserted against them solely because of their status as directors or officers of the economic entity. Disclosure of the premium paid is not permitted under the terms of the insurance contract.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Risk management

The board includes a marketing and financial risk management committee (MFRMC), which identifies and monitors the company's risk profile on a timely basis in addition to reviewing management of portfolio exposures. The MFRMC ensures Namoi Cotton's financial and risk management policies are aligned to its corporate philosophies and principles. The MFRMC regularly reports to the full board.

Given the nature of our business, Namoi Cotton has a potential exposure to a number of business risks, including movements in commodity and currency markets. To prudently manage these exposures, the MFRMC has developed comprehensive policies and procedures to monitor, assess and manage all our major business risks.

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Namoi Cotton Limited (formerly Namoi Cotton Co-operative Ltd)

Key responsibilities of the MFRMC include:

- Monitoring and reviewing the policies and limits in the Risk Management Policy;
- Monitoring and reviewing the performance of management's marketing committee;
- Monitoring and reviewing procedures for treasury and hedging functions;
- Monitoring and reviewing marketing products;
- Monitoring and reviewing hedging strategies;
- Monitoring and reviewing company-wide value at risk results;
- Receiving external reports relative to risk management activities;
- Monitoring and reviewing funding and liquidity structure and management; and
- Monitoring the development of long-term strategic initiatives for marketing and risk management.

Corporate governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Namoi Cotton support and have complied with the principles of corporate governance. The company's corporate governance statement is to be published in the 2018 Annual Report due in June 2018 and is also available on Namoi Cotton's public website at www.namoicotton.com.au

Non-audit services

Non-audit services were provided by the entity's auditor, Ernst & Young, as described in Note 25 of the financial report. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Auditor's independence declaration

The auditor's independence declaration is included on page 19 of the financial report.

Rounding

The amounts contained in this report and in the financial statements have been rounded to the nearest thousand dollars (where rounding is applicable) in accordance with 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 on behalf of the board.

On behalf of the board



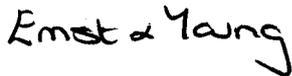
S C BOYDELL
Director
Brisbane
24 April 2018

Auditor's independence declaration to the directors of Namoi Cotton Limited

As lead auditor for the audit of Namoi Cotton Limited for the financial year ended 28 February 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Namoi Cotton Limited and the entities it controlled during the financial year.



Ernst & Young



Paula McLuskie
Partner
24 April 2018

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Independent auditor's report to the members of Namoi Cotton Limited report on the audit of the financial report

Opinion

We have audited the financial report of Namoi Cotton Limited (the Company) and its subsidiaries (collectively the Group), which comprises:

- ▶ the Group consolidated and Company statements of financial position as at 28 February 2018;
- ▶ the Group consolidated and Company statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended
- ▶ notes to the financial statements, including a summary of significant accounting policies; and
- ▶ the directors' declaration.

In our opinion, the accompanying financial report is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Company's and the Group's financial position as at 28 February 2018 and of their financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit 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* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Fair value of ginning assets

Why significant

The Company and the Group measure ginning infrastructure assets ("ginning assets") at fair value as disclosed in Note 1(n) to the financial statements. Ginning assets represent 60.4% of total assets of the Company and 58.88% of total assets of the Group.

The Group uses an internally generated discounted cash flow model to determine the fair value of the ginning assets supported by periodic valuations conducted by external experts on a three year rolling basis. The latest external valuation was performed as at 29 February 2016. The valuation of the ginning assets at fair value is highly dependent on estimates and assumptions, such as sustainable bales, discount rates, market knowledge, bale contributions and revenue growth rates.

The assumptions relating to the valuations are disclosed in Note 15 and Policy Note 1(n). Given the quantum and complexity of the valuation of ginning assets and the level of the disclosures relating to the assumptions used in the valuation, this was determined to be a key audit matter.

How our audit addressed the key audit matter

We evaluated the input assumptions and estimates made by the Group in the valuation methodology including sustainable bales and earnings against average production and earnings over the previous six years (covering a broad spread of high and low production seasons) to take into account the seasonal variations. We also evaluated any changes or lack of changes in assumptions or estimates since the prior year and since the last external valuation including growth rates and discount rates.

We involved our valuation specialists to assist in assessing the modelling used by the Group to support the valuation, by evaluating the model calculation methodology and discount rates used. Our evaluated the competence, capabilities and objectivity of the valuation expert and evaluated the appropriateness of the expert's work.

We also assessed the adequacy of the disclosures relating to the assumptions utilised and related sensitivity disclosures.

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2. Investment in Namoi Cotton Alliance Joint Venture

Why significant

At 28 February 2018 the Group held a 51% stake in the Namoi Cotton Alliance joint venture ("NCA").

As explained in Note 1 to the financial statements, this investment was accounted for using the equity method of accounting in accordance with Australian Accounting Standards. An investment of \$40.5m was recorded on the Group's consolidated balance sheet. This is reflected in the Company balance sheet in Trade and Other Receivables where a loan was made to a controlled entity which holds the interest in NCA. An equity accounted profit of \$0.6m contributed to the overall result of the Group.

The carrying value of NCA in the Group and the recoverability of the associated receivable in the Company was a key audit matter due to the significance of the investment, NCA's contribution to Group profit, and its significance to the valuation of assets referred to in Key Audit Matter #1 above. Details of the Group's investment in this joint venture are outlined in note 11 to the consolidated financial statements.

How our audit addressed the key audit matter

Our audit procedures related to the carrying value of Namoi Cotton's investment in NCA and the equity accounted result included the following:

- ▶ We audited the financial statements of NCA for the year ending 28 February 2018 and issued a separate audit report to the joint venturers.
- ▶ In the context of the audit of the Company and the Group, we evaluated the scope of the NCA audit and the execution of audit procedures, significant areas of estimation and judgement and audit findings.
- ▶ Enquired of NCA management in relation to areas of judgement and movements in the balance sheet and income statement at year end and through to the date of this report
- ▶ Considered the monthly results reported by NCA to the group during the year.
- ▶ Recalculated the Group's share of the equity-accounted result with reference to the audited financial statements of NCA for the year ended 28 February 2018 and ensured these were correctly reflected in the carrying value of NCA.
- ▶ Considered whether any indicators of impairment were present with respect to the Group's carrying value of the investment in NCA or in the Company's carrying value of the related receivable balance in the Company.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's and Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.

- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the audit of the remuneration report

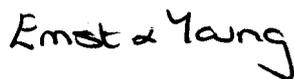
Opinion on the remuneration report

We have audited the Remuneration Report included in pages 10 to 16 of the directors' report for the year ended 28 February 2018.

In our opinion, the Remuneration Report of Namoi Cotton Limited for the year ended 28 February 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



Paula McLuskie
Partner
Brisbane
24 April 2018

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DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Namoi Cotton Limited, I state that:

In the opinion of the directors:

- a) the financial statement, notes and the additional disclosures included in the directors' report designated as audited, of the company and of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - i) giving a true and fair view of the company's and consolidated entity's financial position as at 28 February 2018 and of their performance for the year ended on that date; and
 - ii) complying with Accounting Standards and *Corporations Regulations 2001*;
- b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1(a);
- c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 28 February 2018.

On behalf of the board



S C BOYDELL
Director
Brisbane
24 April 2018

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 28 February 2018

	Note	Consolidated \$'000		Parent \$'000	
		28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Revenue	2a	483,938	355,344	483,711	355,043
Financial instrument gains/(losses)					
Currency derivatives		323	557	323	557
Cottonseed purchase contracts		(22,614)	19,400	(22,614)	19,400
Cottonseed sales contracts		22,548	(18,471)	22,548	(18,471)
Net financial instrument gains/(losses)		257	1,486	257	1,486
Other income	2b	470	60	470	60
Share of profit/(loss) of associates and joint ventures	11	(697)	(90)	54	56
Changes in inventories of finished goods		(734)	993	(734)	1,011
Raw materials and consumables used		(422,333)	(320,203)	(422,304)	(320,169)
Employee benefits expense	2c	(25,618)	(18,309)	(25,604)	(18,309)
Depreciation		(7,949)	(6,206)	(7,942)	(6,206)
Finance costs	2d	(2,558)	(2,611)	(2,586)	(2,639)
Other expenses	2e	(15,102)	(10,426)	(15,027)	(10,424)
Profit/(loss) before income tax		9,674	38	10,295	(91)
Income tax (expense)/benefit	3	(2,905)	245	(3,158)	26
Profit/(loss) attributable to the members of Namoi Cotton Limited		6,769	283	7,137	(65)
Profit/(loss) and total comprehensive income attributable to the members of Namoi Cotton Limited		6,769	283	7,137	(65)

The above statement of profit and loss and other comprehensive income should be read in conjunction with the accompanying notes.

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BALANCE SHEET

as at 28 February 2018

	Note	Consolidated \$'000		Parent \$'000	
		28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Current assets					
Cash and cash equivalents	7	1,493	2,256	1,352	2,135
Trade and other receivables	8	4,012	5,288	9,266	10,540
Inventories	9	9,521	7,614	9,506	7,614
Prepayments		1,292	541	1,289	541
Derivative financial instruments	10	8,493	14,665	8,493	14,665
Total current assets		24,811	30,364	29,906	35,495
Non-current assets					
Trade and other receivables	8	-	-	41,820	41,820
Investments in associates and joint ventures	11	40,969	41,876	1,380	155
Intangibles	14	961	-	-	-
Property, plant and equipment	15	139,082	138,473	138,492	138,473
Total non-current assets		181,012	180,349	181,692	180,448
Total assets		205,823	210,713	211,598	215,943
Current liabilities					
Trade and other payables	16	7,845	8,401	25,551	26,131
Interest bearing liabilities	17	6,776	16,590	6,776	16,590
Provisions	18	2,791	1,979	2,707	1,979
Derivative financial instruments	10	8,556	14,141	8,556	14,141
Total current liabilities		25,968	41,111	43,590	58,841
Non-current liabilities					
Interest bearing liabilities	17	43,226	43,330	45,275	45,379
Provisions	18	874	863	865	863
Deferred tax liabilities (net)	3	3,999	1,134	3,553	394
Co-operative grower member shares	19	-	447	-	447
Total non-current liabilities		48,099	45,774	49,693	47,083
Total liabilities		74,067	86,885	93,283	105,924
NET ASSETS		131,756	123,828	118,315	110,019
Equity					
Parent entity interest					
Contributed equity	20	37,639	1,098	37,639	1,098
Reserves	21	66,463	101,845	66,463	101,845
Retained earnings		27,654	20,885	14,213	7,076
Total parent entity interest in equity		131,756	123,828	118,315	110,019
TOTAL EQUITY		131,756	123,828	118,315	110,019

The above balance sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

for the year ended 28 February 2018

	Note	Consolidated \$'000		Parent \$'000	
		28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Cash flows from operating activities					
Receipts from customers		534,688	391,605	534,275	391,300
Currency derivative flows		761	165	765	165
Payments to suppliers and employees		(101,309)	(66,742)	(100,778)	(66,507)
Payments to growers		(414,420)	(316,437)	(414,402)	(316,455)
Interest received		23	1	23	1
Borrowing costs		(2,426)	(3,114)	(2,453)	(3,142)
Net cash inflow from operating activities	7b	17,317	5,478	17,430	5,362
Cash flows from investing activities					
Payments for property, plant and equipment		(5,451)	(3,648)	(5,365)	(3,648)
Proceeds from sale of property, plant and equipment		203	195	203	195
Purchase of business and JV assets (net of cash acquired)		(1,701)	-	(1,916)	-
Loans advanced		(18)	(23)	(17)	(23)
Proceeds from loans receivable		14	16	13	16
Net cash outflow from investing activities		(6,953)	(3,460)	(7,082)	(3,460)
Cash flows from financing activities					
Proceeds from borrowings		10,553	28,530	10,553	28,530
Repayment of borrowings		(19,539)	(28,027)	(19,539)	(28,026)
Loans advanced to growers		(360)	(2,287)	(360)	(2,287)
Proceeds from repayment of grower loans		360	2,287	360	2,287
Repayment of finance lease and hire purchase		(1,340)	(802)	(1,344)	(803)
Net cash inflow from financing activities	7c	(10,326)	(299)	(10,330)	(299)
Net increase in cash		38	1,719	18	1,603
Add cash at the beginning of the financial year		1,437	(282)	1,316	(287)
Cash at end of the financial year	7a	1,475	1,437	1,334	1,316

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

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STATEMENT OF CHANGES IN EQUITY
for the year ended 28 February 2018

Consolidated \$'000	Issued Capital	CCU Premium Reserve (Note 21)	Asset Revaluation Reserve (Note 21)	Retained Earnings	Total Equity
Total equity at 1 March 2017	1,098	35,382	66,463	20,885	123,828
Net profit for the period	-	-	-	6,769	6,769
CCU's converted to residual capital stock	(1,098)	(35,382)	-	-	(36,480)
Residual Capital Stock/Ordinary Shares	37,639	-	-	-	37,639
Equity dividends	-	-	-	-	-
Total equity at 28 February 2018	37,639	-	66,463	27,654	131,756

Parent \$'000	Issued Capital	CCU Premium Reserve (Note 21)	Asset Revaluation Reserve (Note 21)	Retained Earnings	Total Equity
Total equity at 1 March 2017	1,098	35,382	66,463	7,076	110,019
Net profit for the period	-	-	-	7,137	7,137
CCU's converted to residual capital stock	(1,098)	(35,382)	-	-	(36,480)
Residual Capital Stock/Ordinary Shares	37,639	-	-	-	37,639
Equity dividends	-	-	-	-	-
Total equity at 28 February 2018	37,639	-	66,463	14,213	118,315

Consolidated \$'000	Issued Capital	CCU Premium Reserve (Note 21)	Asset Revaluation Reserve (Note 21)	Retained Earnings	Total Equity
Total equity at 1 March 2016	1,098	35,382	66,463	20,602	123,545
Net profit for the period	-	-	-	283	283
Total equity at 28 February 2017	1,098	35,382	66,463	20,885	123,828

Parent \$'000	Issued Capital	CCU Premium Reserve (Note 21)	Asset Revaluation Reserve (Note 21)	Retained Earnings	Total Equity
Total equity at 1 March 2016	1,098	35,382	66,463	7,141	110,084
Net profit for the period	-	-	-	(65)	(65)
Total equity at 28 February 2017	1,098	35,382	66,463	7,076	110,019

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

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NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Namoi Cotton Limited as an individual entity (under CO 10/654) and the consolidated entity consisting of Namoi Cotton Limited and its subsidiaries.

For the purposes of disclosure of events occurring after balance date the Directors have authorised this financial report for issue on 24 April 2018 in accordance with a resolution of the Board of Directors.

The nature of the operations and principal activities of the group are described in the Directors' Report.

a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with standards, other authoritative pronouncements of the Australian Accounting Standards Board and Corporations Act 2001.

The financial statements have been prepared on a going concern basis under the historical cost convention, except for ginning assets, derivative financial instruments, and cotton seed inventory which are measured at fair value.

Deficiency of Current Assets to Current Liabilities

The Group's current liabilities exceed current assets. The net current liability position is mainly caused by the classification of the working capital finance facility as current. This facility is renewed each year for seasonal reasons and is not required to be repaid in the next 12 months.

After balance date Namoi Cotton completed execution of its 2018 finance facility renewal. The renewal included the extension of the working capital finance facility from March 2018 to March 2019 and other minor reporting obligations (refer to note 17).

Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards as issued by the International Accounting Standards Board.

Significant accounting judgments, estimates and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements over the following primary areas:

- Determination of fair value on cotton seed inventory (refer to Note 1k) and derivative financial instruments (refer to Note 1l);
- Fair value of ginning assets (refer Note 1n);
- Impairment testing of property plant and equipment (refer to Note 1n);
- Classification of associates (refer to Note 1c);
- Treatment of deferred tax balances including tax loss recognition (refer to Note 1g); and
- Assessment of the useful lives of assets (refer to Note 1n)

New accounting standards and interpretations

New standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 March 2017 have been adopted by the Group. The adoption of these standards had no material financial impact on the current period or any prior period and is not likely to affect future periods.

- AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112] effective 1 March 2017;
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 *Statement of Cash Flows* effective 1 March 2017;

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Certain new accounting standards and interpretations have been published that are not mandatory for 28 February 2018 reporting periods and have not yet been applied in the consolidated Financial statements. These new Standards are as follows and where appropriate commentary as to their likely impact has been included:

- AASB 9 Financial Instruments effective 1 March 2018;
- AASB 15 Revenue from Contracts with Customers effective 1 March 2018;
- AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture effective 1 March 2018;
- AASB 16 Leases effective 1 March 2019.

Review of Standards

AASB 9 Financial Instruments.

AASB 9 contains changes to the principal classification categories for financial assets: amortised cost, Fair value through Other Comprehensive Income (FVOCI) and fair value through profit and loss (FVTPL). The standard eliminates the existing AASB 139 categories of held to maturity, loans and receivables. The Group is currently assessing the implications on adoption particularly for the Parent entity which may impact the receivables due from other group entities and the subsequent classification. This assessment has not yet been finalised.

AASB 9 replaces the 'incurred loss' model in AASB 139 with a forward looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI except for investment in equity instruments and to contract assets. Based on its preliminary assessment, the Group has identified that the application of the new guidance requires an earlier assessment of the likelihood of ECLs rather than its existing losses for its financial assets. However, the Group has not yet quantified the potential impact.

The full impact of the disclosures required by the standard remains in progress.

AASB 15 Revenue from Contracts with Customers.

AASB 15 introduces a five step process for revenue recognition with the core principle of the new Standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expected to be entitled in exchange for those goods or services. Accounting policy changes will arise in timing of revenue recognition, treatment of contract costs and contracts which contain a financing element.

AASB 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The group has undertaken a high level review of the current recognition practices for individual revenue streams. This indicated there may be limited impacts to the existing recognition practices. However, a detailed analysis of the underlying contracts has yet to be completed and, therefore, the Group are unable to determine if there is a material impact.

The full impact of the disclosures required by the standard remains in progress.

b) Seasonality of operations

Cotton Ginning, one of Namoi Cottons business segments, operates on a seasonal basis whereby ginning normally occurs between March to July each year. Accordingly, that segment traditionally generates profits in the first half year and incurs losses in the second half year during the ensuing maintenance period.

Namoi Cotton's marketing segment, represented by sales to NCA and its residual 51% share in the joint venture, generally takes delivery of lint cotton from growers in the first half of the year predominately from March to

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August. Under NCA's accounting policies, profits on lint marketing occur when the joint venture takes delivery of the lint cotton from the grower.

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Namoi and its subsidiaries as at 28 February 2018. Control is achieved when Namoi is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, Namoi controls an investee if and only if the group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When Namoi has less than a majority of the voting or similar rights of an investee, Namoi considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Namoi's voting rights and potential voting rights.

Namoi re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when Namoi obtains control over the subsidiary and ceases when Namoi loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date Namoi gains control until the date Namoi ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of Namoi and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with Namoi's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of Namoi are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If Namoi loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary;
- De-recognises the carrying amount of any non-controlling interests;
- De-recognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if Namoi had directly disposed of the related assets or liabilities.

Investment in associates and joint ventures

An associate is an entity over which Namoi has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. Namoi's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in Namoi's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects Namoi's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Namoi's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, Namoi recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between Namoi and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of Namoi's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as Namoi. When necessary, adjustments are made to bring the accounting policies in line with those of Namoi.

After application of the equity method, Namoi determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, Namoi determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, Namoi calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, Namoi measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Joint operations

Namoi determines its interest in the assets and liabilities relating to each joint operation on the basis of its rights and obligations in a specified proportion in accordance with the contractual arrangement.

Namoi recognises the following at its share:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly.

Jointly controlled assets

Interests in jointly controlled assets have been incorporated in the financial statements under the appropriate headings.

d) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of

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the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

e) Foreign currency translation

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Namoi Cotton Limited's functional and presentation currency.

Transactions denominated in foreign currencies are initially recorded in the functional currency at the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of foreign currency denominated monetary assets and liabilities using rates of exchange applicable at balance date are recognised in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

f) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Sale of lint cotton, cotton seed and grain commodities

Sales revenue is brought to account when the terms of delivery under the sales contract have been satisfied.

Fair value of forward cotton seed commodity sale contracts is determined with reference to prevailing prices at reporting date.

Derivatives

Derivatives including forward cotton seed commodity purchase and sale contracts and forward exchange contracts are stated at fair value with any gains or losses arising from changes in fair value taken directly to the statement of comprehensive income.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Ginning revenue

Ginning charges are invoiced to growers for services connected with the processing of seed cotton to lint cotton. Revenue is brought to account on all production performed during the period.

Interest revenue

Interest revenue is brought to account when entitlement to interest occurs using the effective interest method.

Dividend revenue

Dividend revenue is brought to account when the group's right to receive is established.

Rental revenue

Rental income is brought to account when received.

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g) Taxes

Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based upon the prevailing income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and as to available carried forward taxation losses.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Deferred tax assets and deferred tax liabilities are offset only where such offset is enforceable and where the asset and liability relate to the same taxpaying entity and the same taxation authority.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

Tax consolidation legislation

Namoi Cotton Limited is the head entity of the tax consolidated group comprising all wholly owned controlled entities. The group has applied the group allocation method in determining the appropriate amount of current and deferred taxes to allocate to the members of the tax consolidated group.

Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

h) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated in accordance with the depreciation methodology applicable for the type of asset subject to the lease. However, if no reasonable certainty exists to indicate the asset will be acquired

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at the end of the lease term the asset is depreciated over the shorter of the estimated useful life of the asset or the lease term.

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis over the period of the operating lease.

i) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments readily convertible to cash within two working days, net of outstanding bank overdrafts. Bank overdrafts are carried at the principal amount. Interest is recognised as an expense as it accrues.

j) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment for any uncollectible debts. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date. The recoverability of trade and grower loans is reviewed on an ongoing basis. An estimate for doubtful debts is made when collection of the full nominal amount is no longer probable. Bad debts are written off as incurred.

k) Inventories

Cotton seed

Cotton seed inventory is carried at fair value less costs to sell.

Fair value reflects the price at which an orderly transaction to settle same inventory in the principle (or most advantageous) market for that inventory would take place between market participants at the measurement date. Costs to sell incorporate anticipated future delivery costs, commissions and brokerage.

Fair value less costs to sell may be higher or lower than cost with any differences taken to the statement of comprehensive income.

Grain commodities and consumables

Grain commodities and consumables (operating supplies and spares) are carried at the lower of average cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

l) Derivative financial instruments

The group uses derivative financial instruments such as foreign exchange contracts to manage the risks associated with foreign currency contracts to manage the risks associated with foreign currency. Such derivative financial instruments are stated at fair value with any gains or losses arising from changes in fair value taken directly to the statement of comprehensive income.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of cotton futures and options contracts is determined by reference to commodity prices with similar maturity profiles.

Forward commodity purchase and sale contracts are classified as derivatives measured at fair value. Fair value is determined with reference to prevailing prices at reporting date.

The group uses interest rate derivatives to manage its risks associated with interest rate fluctuations. These derivatives have not been designated as hedging instruments and are accordingly initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured to fair value. Changes in fair value are recognised directly in the statement of comprehensive income as finance costs. Fair value is determined by reference to market values for similar instruments.

m) Recoverable amounts of assets

At each reporting date, the group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

n) Property, plant and equipment

Cost and valuation

Gin, warehouse, other infrastructure and major equipment assets are measured at fair value (refer to Note 1n) less accumulated depreciation and any impairments recognised after the date of revaluation. Valuations are performed frequently to ensure that the fair value of revalued assets does not differ materially from its carrying value.

Any revaluation surplus is recorded in other comprehensive income and hence, credited to the asset revaluation reserve in equity (less the income tax effect), except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the income statement, in which case, the increase is recognized in the income statement. A revaluation deficit is recognized in the income statement, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve. Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Other assets are carried at cost less accumulated depreciation and any accumulated impairments in value.

Depreciation

Ginning infrastructure assets are depreciated on a units of production basis over their rolling estimated remaining useful lives of 20 years of sustainable bales (2017: 20 years). All other property, plant and equipment, other than freehold land, is depreciated on a straight-line basis at rates calculated to allocate the cost less estimated residual value at the end of the useful lives of the assets against revenue over their estimated useful lives.

Major depreciation rates are:

Ginning assets	20 years (2017: 20 years)
Other assets	3 to 44 years

Impairment

The recoverable amounts of plant and equipment are compared to carrying values when indicators of potential impairment exist. These indicators include but are not limited to significant industry, economic and agronomic events.

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The recoverable amounts of plant and equipment are the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

o) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

p) Trade and other payables

Liabilities for trade creditors and accruals are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the entity.

q) Interest-bearing loans and borrowings

All interest-bearing liabilities are initially measured at fair value of the consideration received less attributable transaction costs and subsequently at amortised cost using the effective interest method. Interest is charged on non-related party borrowings as an expense as it accrues.

r) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

A provision for distribution is recognised as a liability when the dividends are declared, determined or publicly recommended on or before the reporting date.

s) Capital stock

On 10 October 2017 a Restructure was completed and capital stock were initially converted to residual capital stock and upon receipt of a valid conversion notice converted to ordinary shares. Refer Note 20.

t) Grower member share capital

On 10 October 2017 a Restructure was completed and capital stock and grower member shares were converted to ordinary shares. Refer Note 19.

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u) Share-based payment transactions

The group has provided benefits to permanent employees (not including directors) in the form of participation in the employee share plan after a qualifying period. Shares are issued under the plan at a 5% discount to the average market price of the five days preceding the offer. The plan was suspended in August 2004.

v) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and long service leave. Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to high quality corporate bonds that have terms to maturity approximating the terms of the related liability are used.

Employee benefits are recognised against profits when they are respectively paid or payable.

w) Finance costs

Finance costs are recognised as expenses in the periods in which they are incurred with the exception of interest rate derivatives recognised at fair value and the amortisation of ancillary costs incurred with the arrangement of borrowings, which are amortised over the period of the facility. Finance costs include:

- interest on bank overdrafts and short term and long-term borrowings using the effective interest method; and
- fair value movements in interest rate derivatives.

x) Earnings per share

Basic earnings per share is determined by dividing the profit attributable to members, adjusted to exclude costs of servicing equity (other than distributions) by the weighted average number of shares.

Diluted earnings per share is determined by dividing the profit attributable to members, adjusted to exclude costs of servicing equity (other than distributions) by the weighted average number of shares and potential dilutive shares.

y) Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the CEO as the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management considered other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services;
- Nature of the production processes;
- Type or class of customer for the products and services;
- Methods used to distribute the products or provide the services; and if applicable
- Nature of the regulatory environment.

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Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category "unallocated segment".

z) Fair value measurement

Namoi measures financial instruments, such as, derivatives, and non-financial assets, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to Namoi.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Namoi uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, Namoi determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Namoi's Directors determine the policies and procedures for both recurring fair value measurement, such as property, plant and equipment and derivatives, and for non-recurring measurement. External valuers are involved for valuation of significant assets, such as ginning assets and derivatives, and significant liabilities, such as derivatives. Involvement of external valuers is decided upon annually by the Directors after discussions with and approval by the Company's Audit and Compliance Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Directors analyse the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per Namoi's accounting policies.

For this analysis, the Directors verify the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

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The Directors, in conjunction with reports from external valuers, also compares changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

The Directors present the valuation results to the Audit and Compliance Committee and Namoi's independent auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, Namoi has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

aa) Rounding of amounts

This financial report is presented in Australian dollars and all values have been rounded to the nearest thousand dollars (where rounding is applicable) in accordance with ASIC Corporations (Rounding in Financial Directors Reports) Instrument 2016/191. The company is an entity to which this legislative instrument applies.

bb) Changes to comparatives

Changes to comparative figures are made where there is a conflict with the current-year accounts.

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2. Revenue and Expenses

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
a) Revenue from continuing operations				
Sale of goods at fair value	426,529	315,310	426,302	315,009
Rendering of services	56,952	39,620	56,952	39,620
Rental revenue	212	213	212	213
Financial service provider revenue	222	200	222	200
Finance revenue	23	1	23	1
	483,938	355,344	483,711	355,043
<i>Breakdown of finance revenue:</i>				
Interest revenue from grower finance	-	(2)	-	(2)
Interest revenue from non-related entities	23	3	23	3
	23	1	23	1
b) Other income				
Net gain on disposal of property, plant and equipment	(10)	60	(10)	60
Business combination revaluation gain ¹	480	-	480	-
	470	60	470	60
c) Employee benefits expense				
Salaries, wages, on-costs and other employee benefits	24,173	17,116	24,160	17,116
Defined contribution benefits expense	1,445	1,193	1,444	1,193
	25,618	18,309	25,604	18,309
d) Finance costs				
Interest on bank loans and overdrafts	2,465	2,596	2,493	2,624
Interest expense - interest rate derivatives	93	15	93	15
	2,558	2,611	2,586	2,639
e) Other expenses				
Maintenance	4,861	3,681	4,856	3,681
Insurance	714	725	711	725
Motor vehicle	1,449	964	1,448	964
Consulting	856	368	852	368
Safety	699	447	699	447
Travel	497	403	497	403
Minimum operating lease payments	571	554	561	554
Strategic restructuring-consulting ²	2,307	620	2,307	620
Other	3,148	2,664	3,096	2,662
	15,102	10,426	15,027	10,424

¹ Gain on revaluation of existing associate investment in Australian Classing Services P/L prior to acquisition of the remaining 50%.

² Includes the engagement of external corporate, legal, accounting and taxation advisors in relation to the corporate Restructure and fair value increment to grower member shares (Refer Note 20).

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3. Income Tax

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Statement of Comprehensive Income				
Accounting profit from continuing operations before income tax expense	9,674	38	10,295	(91)
At the Group's statutory income tax rate of 30% (2017: 30%)	2,902	11	3,089	(27)
Non-assessable income	(203)	(20)	(144)	-
Non-allowable expenditure	295	52	211	28
Tax loss incurred - not recognised	-	-	-	-
Filing differences	2	(8)	2	(8)
Tax losses previously not recognised ¹	(91)	(280)	-	(19)
Income tax expense/(benefit) recorded in the statement of comprehensive income	2,905	(245)	3,158	(26)

¹ Tax losses previously unrecognised for individual entities outside the tax consolidated group.

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¹ Tax losses recognised for individual entities in the tax consolidated group

² The benefits in respect of tax losses will only be obtained if:

- a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- b) the conditions for deductibility imposed by tax legislation continue to be complied with; and
- c) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

Tax consolidated group and tax sharing arrangements

Namoi Cotton Limited is the head entity of the tax consolidated group comprising all wholly owned controlled entities. The group has applied the group allocation method in determining the appropriate amount of current and deferred taxes to allocate to the members of the tax consolidated group. Members of the group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in these financial statements in respect of this agreement on the basis that the possibility of default is remote.

4. Acquisitions

Two acquisitions arose from transactions settling within the financial year.

- a) Australian Classing Services Pty Ltd ("ACS") – business combination

Namoi Cotton Limited acquired the remaining 50% interest in the shares of ACS taking its ownership interest to 100%. ACS is a company based in Australia which provides cotton classing services to the Australian cotton industry. The transaction was effected by a share transfer dated 6 February 2018 with cash consideration of \$690,000 paid to the non-controlling shareholders.

- b) Moomin Ginning Company ("MGC")

Namoi Cotton Limited acquired an additional 25% interest in the MGC partnership taking its ownership interest to 75%. MGC owns and operates the cotton ginning facility at Merrywinebone via Rowena in north west New South Wales. The transaction was effected by a Joint Venture Participation Interest and Ginning Commitment Agreement which was executed on 22 December 2017 with a cash consideration of \$2.0m paid on 25 January 2018.

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Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of the above transactions as at the effective date of the transactions were provisionally:

	ACS (100%) \$'000	MGC (25%) \$'000
Assets		
Cash at bank	214	774
Trade receivables	5	-
Inventory	15	-
Other current assets	15	-
Property, plant and equipment	512	2,057
Deferred tax asset	40	-
	<u>801</u>	<u>2,831</u>
Liabilities		
Trade creditors	(40)	(831)
Borrowings	(250)	-
Provisions	(92)	-
	<u>(382)</u>	<u>(831)</u>
Goodwill arising on acquisition	961	-
Total fair value	<u>1,380</u>	
Consideration paid		<u>2,000</u>
	ACS \$'000	
Carrying value of existing 50% interest	210	
Revaluation gain on existing 50% investment	480	
Existing investment at fair value	690	
Consideration paid for remaining 50%	690	
Fair value of 100% of ACS	<u>1,380</u>	
Consideration paid net of 100% of cash acquired	<u>476</u>	

No separately identifiable intangibles were identified and it is not expected that the goodwill will be deductible for income tax purposes. Transaction costs incurred of \$53,528 were expensed into other expenses.

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The contribution made to the group by the acquired business from the date of acquisition was:

	<u>ACS \$'000</u>
Revenue	-
Profit/(Loss) after tax	<u>(24)</u>

The contribution made to the group by the acquired business had it been acquired from the beginning of the period (1 March 2017):

	<u>ACS \$'000</u>
Revenue	712
Profit after tax	<u>158</u>

Analysis of cash flows on acquisition:

	<u>ACS \$'000</u>
Net cash acquired with the acquisition	214
Cash paid	(690)
Net cash flow on acquisition	<u>(476)</u>

Impairment

The goodwill arising from the ACS business combination has been derived from applying the discounted earnings technique to the revenue stream from the continuing operation of the classing business. The carrying value and impairment assessment criteria are based upon:

- An assumed discount rate of 12.5%
- A ten-year cash flow period including a six times multiple allowed as a terminal value and
- Indexation of costs at 2.2% per annum and income at 1.65% per annum

Goodwill

For the purpose of impairment testing, goodwill is allocated to each of the consolidated entity's cash generating units (CGU), or groups of CGUs, that are expected to benefit from the synergies of the combinations. Each unit or groups of units to which goodwill is allocated represents the lowest level at which assets are monitored for internal management purposes.

Goodwill acquired through the business combination during the financial year was allocated to the ACS CGU which is part of the marketing segment.

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually (at year end) for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Intangibles

The recoverable amount of the ACS CGU has been determined based on the discounted earning technique being applied to revenue.

The calculation of fair value in use is most sensitive to the following assumptions (level three assumptions):

- Forecast Revenue;
- Discount rates; and
- Growth rates (revenue and expenses)

Based on these calculations, the recoverable amount is in excess of the carrying value of the ACS CGU and therefore, no impairment was recorded.

5. Earnings per Share

Basic earnings per share is calculated by dividing the consolidated net profit after tax for the year by the number of ordinary shares at year end.

The following reflects the income and equity data used in the basic and diluted earnings per share computations:

	Consolidated \$'000	
	28 Feb 2018	28 Feb 2017
Consolidated Profit attributable to ordinary share holders of the parent	6,769	283
Weighted average number of ordinary shares - basic	No. 127,427,307 ¹	No. 127,427,307 ¹
Earnings per share - basic (cents)	5.3	0.22
Weighted average number of ordinary shares - diluted	No. 142,653,607 ¹	No. 142,653,607 ¹
Earnings per share - diluted (cents)	4.7	0.20

¹ Retrospectively adjusted as if the restructure had occurred from the beginning of each period.

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6. Distributions Paid or Provided on Ordinary Shares/Co-operative Capital Units

	Consolidated \$'000	
	28 Feb 2018	28 Feb 2017
<i>Distributions declared and paid during the year (unfranked)</i>		
Interim distribution for the year ended 28 February 2018 of 0.0 cents per ordinary share (2017: 0.0 cents)	-	-
Final distribution for the year ended 28 February 2017 of 0.0 cents per unit of Capital Stock (2016: 0.0 cents)	-	-
Net distributions during the year	-	-

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Franking credits available for subsequent financial years based on a tax rate of 30% (2017: 30%)	530	-	530	-

Franking account credits have arisen from the acquisition of subsidiary (ACS) and the tax payable from its final return prior to entering the tax consolidated group.

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7. Cash and Cash Equivalents

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
<i>(a) Reconciliation to Statement of Cash Flows</i>				
For the purposes of the Statement of Cash Flows, cash comprises the following items:				
Cash at bank and in hand	1,493	2,256	1,352	2,135
Bank Overdraft	(18)	(819)	(18)	(819)
	1,475	1,437	1,334	1,316
<i>(b) Reconciliation of net cash provided by operating activities to operating profit after income tax.</i>				
Operating profit/(loss) after income tax	6,769	283	7,137	(65)
<i>Adjustments for non-cash items:</i>				
Depreciation	7,949	6,206	7,942	6,206
(Gain)/loss on sale of property, plant and equipment	10	(60)	10	(60)
Provision for bad debts	67	(449)	20	(449)
Provision for employee benefits	731	(19)	730	(20)
Provision other	-	(200)	-	(200)
Fair value increment on revaluation of grower member shares	712	-	712	-
Revaluation gain on acquisition	(480)	-	(480)	-
Share of associates (profits)/losses	697	90	(54)	(56)
	9,686	5,568	8,880	5,421
<i>Changes in operating assets and liabilities</i>				
(Increase)/decrease in accounts receivable	751	(272)	1,058	(92)
(Increase)/decrease in inventories	(1,892)	(1,513)	(1,892)	(1,532)
(Increase)/decrease in other assets	(285)	(169)	(297)	(169)
(Increase)/decrease in derivatives	587	(1,635)	587	(1,635)
Increase/(decrease) in creditors	(1,086)	3,329	(1,083)	3,328
Increase/(decrease) in other liabilities	(118)	132	(118)	132
Increase/(decrease) in deferred tax asset	2,905	(245)	3,158	(26)
Net cash inflow/(outflow) from operating activities	17,317	5,478	17,430	5,362

(c) Disclosure of financing activities

	1 March 2017	Cash flows	Foreign exchange movement	New leases	Other	28 February 2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Current interest-bearing loans	15,000	(8,980)	-	-	(20)	6,000
Current obligations under finance leases	771	(774)	-	204	557	758
Current other borrowings	38	(6)	-	-	-	32
Non-current interest bearing loans	41,980	-	-	-	20	42,000
Non-current obligations under finance leases	1,350	(566)	-	999	(557)	1,226
	59,139	(10,326)	-	1,203	-	50,016

	1 March 2016	Cash flows	Foreign exchange movement	New leases	Other	28 February 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Current interest-bearing loans	9,000	500	-	-	5,500	15,000
Current obligations under finance leases	717	(697)	-	112	639	771
Current other borrowings	34	4	-	-	-	38
Non-current interest bearing loans	47,480	-	-	-	(5,500)	41,980
Non-current obligations under finance leases	1,409	(106)	-	686	(639)	1,350
	58,640	(299)	-	798	-	59,139

(d) Disclosure of non-cash financing and investing activities

(i) Equipment Finance Transactions

During the financial year, the consolidated entity acquired plant and equipment with an aggregate fair value of \$1,203,050 (2017: \$798,081) by means of finance leases.

(ii) Distribution Reinvestment Plan

No distributions were paid via the issue of units/shares in 2018 (2017: nil). Refer note 6 and note 20.

(e) Fair Value

All cash balances are reflective of fair value based on observable market data.

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8. Trade and Other Receivables

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
<i>Current</i>				
Trade debtors ¹	4,030	4,955	3,949	4,955
Less: allowance for impairment loss	(71)	(5)	(20)	-
Trade debtors from an associate	4	-	4	-
	3,963	4,950	3,933	4,955
Loans to growers ²	12	302	12	302
Less: allowance for impairment loss	-	-	-	-
	12	302	12	302
Funds due from futures brokers ³	-	-	-	-
Less: allowance for impairment loss	-	-	-	-
	-	-	-	-
Loans to associates ⁴	-	3	265	3
Loans to employees ⁵	37	33	37	33
Loans to controlled entities ⁶	-	-	5,019	5,247
	4,012	5,288	9,266	10,540
<i>Non-current</i>				
Loans to controlled entities ⁶	-	-	41,820	41,820
	-	-	41,820	41,820

¹ Trade debtors arise from the following:

Domestic sales of white cotton seed, grain commodities and ginning by-products. These debtors are settled under a range of agreed payment terms. These debtors are non-interest bearing.

The group maintains trade credit insurance over non-related party domestic debtors to minimise credit risk.

² Grower loans represent interest bearing crop finance facilities offered to growers secured by crop mortgage. Interest rate margins are determined based on the level of risk associated with the individual loan.

As at 28 February 2018 Namoi Cotton had committed \$nil (2017: \$nil) in credit term facilities to growers which had not been drawn.

³ Funds due from futures brokers represent funds on deposit to offset unfavourable futures mark-to-market values and futures contract maintenance margins. Funds are denominated in United States dollars and bear a nominal rate of interest.

⁴ Loans to associates represent working capital financing provided to Australian Classing Services Pty Ltd. The loan bears interest at a fixed rate of 7.0% (2017: 7.0%) and is repayable on demand.

⁵ Loans to employees represent non-interest-bearing loans advanced under the Namoi Cotton employee incentive share plan (refer note 20) and other staff advances.

⁶ Loans to controlled entities that are participants in joint ventures, are non-interest-bearing and are repayable from the proceeds generated by the joint venture. The loans are carried at amortised cost, however, have not been discounted given that the loan has an undefined term.

Allowance for impairment loss

An allowance for impairment loss is recorded where objective evidence exists that an individual receivable is impaired taking into account the likelihood of recovery of any collateral and/or trade credit insurance. Individual receivables are written off only upon exhaustion of all means of recovery and only with Board approval. Impairment losses have been recognised in the current year by the group of \$71,240 (2017: \$nil) and the parent entity of \$19,685 (2017: \$nil). These amounts were included in the other expenses item in the statement of profit and loss and other comprehensive income.

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
At 1 March 2017	5	454	-	450
Charge for the year	67	-	20	-
Foreign exchange translation	-	(22)	-	-
Amounts written off	-	(427)	-	(450)
Recoveries	-	-	-	-
At 28 February 2018	71	5	20	-

At balance date the ageing analysis of trade and other receivables is as follows:

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Total outstanding	4,083	5,000	51,106	52,067
Unimpaired				
Within terms	3,759	4,525	50,905	51,592
Past Due 1 - 30 days	77	355	56	355
Past Due 31 - 60 days	15	5	15	5
Past Due 60+ days	161	110	110	115
Impaired				
Past Due 60+ days	71	5	20	-

Receivables past due but not considered impaired are: Group \$252,679 (2017: \$470,115); Parent \$180,677 (2017: \$474,650). Payment terms on these debts have not been renegotiated however discussions with the counterparties and/or receipts subsequent to reporting date reflect that payment will be received in full.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected these other balances will be received when due.

Fair value, foreign exchange and credit risk

All receivables are carried at fair value based on observable market data. Details regarding foreign exchange and interest rate risk are disclosed in Note 28. The maximum exposure to credit risk is the fair value of receivables less insurance recoverable.

9. Inventories

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Cotton seed (at fair value less costs to sell)	1,077	1,792	1,077	1,792
Operating supplies and spares (at cost)	8,444	5,822	8,429	5,822
	9,521	7,614	9,506	7,614

Refer to Note 28 for further information relating to the valuation techniques for determining the fair value of Cotton Seed.

10. Derivative Financial Instruments

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Current assets				
Foreign exchange contracts	86	444	86	444
Cotton seed sale contracts	8,407	-	8,407	-
Cotton seed purchase contracts	-	14,221	-	14,221
	8,493	14,665	8,493	14,665
Current liabilities				
Foreign exchange contracts	111	-	111	-
Interest rate swap contracts	52	-	52	-
Cotton seed sale contracts	-	14,141	-	14,141
Cotton seed purchase contracts	8,393	-	8,393	-
	8,556	14,141	8,556	14,141

Derivatives are used by the group to manage trading and financial risks as detailed in note 28.

Fair value of foreign exchange contracts are determined by comparing the contracted rate to the market rates for contracts with the same term to maturity. All movements in fair value are recognised in the profit within the statement of comprehensive income in the period they occur. The net fair value loss on foreign exchange contracts at year end was \$25,125 for the group (2017: \$444,464) and \$25,125 (2017: \$444,464) for the parent entity.

Cotton seed sales contracts are forward dated and deliverable contracts with customers. The fair value of cotton seed commodity contracts is determined by reference to market prices and foreign exchange rates. The fair value of the open cotton seed sale contracts at year end was a derivative asset (unrealised gain) of \$8,406,942 for the group (2017: Loss \$14,141,183) and \$8,406,942 (2017: Loss \$14,141,183) for the parent entity.

Cotton seed commodity purchase contracts are forward dated and deliverable contracts with cotton growers or brokers. The fair value of cotton seed commodity contracts is determined by reference to market prices and foreign exchange rates. The fair value of the open cotton seed purchase contracts at year end was a derivative

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liability (unrealised loss) of \$8,393,213 for the group (2017: Gain \$14,220,718) and \$8,393,213 (2017: Gain \$14,220,718) for the parent entity.

Interest bearing loans of the group incurred an average variable interest rate of 3.0% (2017: 3.1%). Swaps in place at the comparative reporting date accounted for approximately 41.7% (2017: nil%) of the principal outstanding. The average fixed interest rates were 2.1% (2017: nil%) and the average variable rates were 1.98% (2017: nil%) at balance date. The net fair value loss on interest rate swaps was \$51,780 (2017: \$nil).

11. Investments in Associates and Joint Ventures using the equity method

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Investment in associates (material)	1,292	2,671	-	-
Investment in joint ventures (material)	40,521	40,010	-	-
Investment in joint ventures (non material)	(844)	(805)	1,380	155
	40,969	41,876	1,380	155

(a) Ownership interest

Name	Balance Date	% Ownership interest held by consolidated entity	
		28 Feb 2018	28 Feb 2017
<i>Investments in Associates</i>			
Cargill Oilseeds Australia Partnership (COA)	31 May	15%	15%
Cargill Processing Ltd (CPL) ¹	31 May	15%	15%
<i>Investments in Joint Ventures</i>			
Australian Classing Services Pty Ltd (ACS) ^{1,2}	28 February	-	50%
Namoi Cotton Alliance (NCA)	28 February	51%	51%
NC Packing Services Pty Ltd (NCPS) ¹	28 February	51%	51%

¹ Incorporated in Australia

² The remaining 50% of ACS was acquired as at 31 January 2018 and therefore became a subsidiary (Refer Note 4)

(b) The principal activities of the associates and joint ventures are:

- COA processes and markets cotton seed, canola and other oilseeds.
- CPL owns facilities used in the processing and marketing of cotton seed, canola and other oilseeds by COA.
- ACS provides independent classing services to the Australian cotton industry.
- NCA markets Australian lint cotton and owns significant up-country warehousing and logistics facilities to support the marketing operations
- NCPS operates containerised commodity packing facilities primarily packing cottonseed, coarse grains and pulses.

NCA and NCPS are 51% owned, however, the two entities are jointly controlled due to the joint venture agreement terms in relation to committee decision making etc.

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(c) Significant influence

Significant influence exists over the Cargill associate's, despite less than 20% ownership, due to the agreed one third representation upon the Board of Directors and management committees. Namoi Cotton is also a significant supplier of the primary input product for the Narrabri cotton seed crushing facility.

	Consolidated \$'000			
	28 Feb 2018		28 Feb 2017	
	COA	CPL	COA	CPL
<i>(d) Material Investments in Associates</i>				
<i>(i) Associates results</i>				
Revenue	315,085	24,441	250,872	23,417
Profit/(Loss)	(10,097)	911	(5,777)	670
Group share of associates profit/(loss)	(1,515)	137	(867)	101
<i>(ii) Associates assets and liabilities:</i>				
Current assets	55,935	5,703	52,731	5,640
Non-current assets	-	19,061	-	19,152
Current liabilities	(71,067)	(1,016)	(57,629)	(1,955)
Non-current liabilities	-	-	-	-
Associates net assets	(15,133)	23,749	(4,899)	22,837
Group share of associates net assets	(2,270)	3,562	(735)	3,426
<i>(iii) Carrying amount of investments in associates:</i>				
Balance at the beginning of the financial year	(755)	3,425	117	3,355
Distribution paid out of retained earnings	-	-	-	-
Share of associates profits/(losses) for the financial year	(1,515)	137	(872)	70
Carrying amount of investment in associates at the end of the financial year	(2,270)	3,562	(755)	3,425
<i>(iv) Share of contingent liabilities of associate:</i>	-	-	-	-
<i>(iv) Share of associates commitments:</i>	-	-	-	-

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	Consolidated \$'000	
	28 Feb 2018	28 Feb 2017
<i>(e) Material Investments in Joint Ventures: NCA</i>		
<i>(i) Joint Venture results (for the period since inception)</i>		
Revenue	365,467	281,989
Depreciation and Amortisation	(2,530)	(2,315)
Interest Expense	(1,468)	(995)
Interest Income	229	186
Profit/(loss) before income tax expense	1,001	118
Income tax expense ^(a)	-	-
Joint Venture net profit/(loss)	1,001	118
^(a) The Joint Venture is a partnership for tax purposes accordingly is not a taxable entity		
Group share of joint venture net profit/(loss)	511	60
<i>(ii) Joint venture assets and liabilities:</i>		
Current assets		
Cash and cash equivalents	32,856	11,755
Other	57,838	58,093
Non-current assets	58,799	62,027
Current liabilities		
Financial liabilities	(64,330)	(47,028)
Other	(4,013)	(4,276)
Non-current liabilities		
Financial liabilities	(1,630)	(2,027)
Other	(67)	(92)
Joint Venture net assets	79,453	78,452
Group share of joint venture net assets	40,521	40,011
<i>(iii) Carrying amount of investments in joint ventures:</i>		
Balance at the beginning of the financial year	40,011	39,950
Acquisition of joint venture	-	-
Contribution to working capital	-	-
Distribution paid out of retained earnings	-	-
Share of joint venture profits/(losses) for the financial year	511	60
Carrying amount of investments in joint ventures at the end of the financial year	40,521	40,011
<i>(iv) Share of contingent liabilities of joint venture:</i>		
	-	-
<i>(v) Share of joint venture commitments:</i>		
	-	-
<i>(f) Share of Non Material Investments in joint venture entities: ACS¹ and NCPS</i>		
<i>(i) Non Material Joint Venture Results</i>		
Profits/(Losses) and total comprehensive income from continuing operations	170	652

¹ Includes share of ACS profit before acquisition of remaining 50% interest from joint venture partner.

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12. Interest in Joint Operations

(a) Ownership interest

Name	Balance Date	% Ownership interest held by consolidated entity	
		28 Feb 2018	28 Feb 2017
Wathagar Ginning Company (WGC)	28 February	50%	50%
Moomin Ginning Company (MGC)	28 February	75%	50%

(b) Principal activities

The joint operations provide ginning services to cotton growers in the Gwydir valley located in NSW.

(c) Impairment

No assets employed in the jointly controlled operation were impaired during the year (2017: \$nil).

(d) Accounting for joint operations

The joint operations have been accounted for using the share of rights to assets and obligations for liabilities method.

13. Interest in Jointly Controlled Assets

Namoi Cotton holds a 40% joint ownership interest in the white cotton seed handling and storage facilities at Mungindi, NSW with a book carrying value of \$2.22m at 28 February 2018 (2017: \$2.28m).

Namoi Cotton pays for its proportion of the operating costs of the facility. There were no material contingent liabilities or capital expenditure commitments in respect of jointly controlled assets at balance date.

14. Intangible Assets

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Goodwill				
Written down value - 1 March 2017	-	-	-	-
Acquisition of a subsidiary ¹	961	-	-	-
Written down value - 28 February 2018	961	-	-	-

¹Acquisition during the year

The remaining 50% of shares in Australian Classing Services Pty Ltd were acquired effective 31 January 2018 valuing the company at \$1.38m. (Refer Note 4). Goodwill is carried at cost. No amortisation or impairment of goodwill has been recorded for the year.

15. Property, Plant and Equipment

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
<i>Gin Assets</i>				
<i>Ginning infrastructure and major equipment</i>				
at fair value	129,353	127,388	129,353	127,388
Provision for depreciation and impairment	(10,783)	(4,694)	(10,783)	(4,694)
	118,570	122,694	118,570	122,694
Revaluation to fair value	-	-	-	-
Closing written down value at fair value	118,570	122,694	118,570	122,694
<i>Other ginning equipment</i>				
Cost	14,040	9,002	14,040	9,002
Provision for depreciation and impairment	(5,081)	(4,430)	(5,081)	(4,430)
Closing written down value at cost	8,959	4,572	8,959	4,572
<i>Net Gin Assets</i>	127,529	127,266	127,529	127,266
<i>Other Assets</i>				
<i>Other infrastructure and major equipment</i>				
at fair value	6,353	6,353	6,353	6,353
Provision for depreciation and impairment	(487)	(243)	(487)	(243)
	5,866	6,110	5,866	6,110
Revaluation to fair value	-	-	-	-
Closing written down value at fair value	5,866	6,110	5,866	6,110
<i>Other equipment</i>				
Cost	10,568	10,183	9,426	10,183
Provision for depreciation and impairment	(8,173)	(8,420)	(7,621)	(8,420)
Closing written down value at cost	2,395	1,763	1,805	1,763
<i>Net Other Assets</i>	8,261	7,873	7,671	7,873
Capital work in progress ('CWIP') at cost	3,292	3,334	3,292	3,334
Total written down value at fair value	124,437	128,804	124,437	128,804
Total written down value at cost	14,646	9,669	14,056	9,669
Total written down value for property, plant & equipment	139,082	138,473	138,492	138,473

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If the above categories of assets were still measured using the cost model, the carrying amount (WDV) would be as follows:

	Consolidated and Parent			
	\$'000		\$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Ginning infrastructure and major equipment	63,552	59,891	63,552	59,891
Other infrastructure and major equipment	3,638	3,422	3,638	3,422
	67,190	63,313	67,190	63,313

Revaluation of Ginning Assets

Effective 29 February 2012, the group changed its accounting policy for the measurement of ginning assets from deemed cost to fair value.

The methodology used in determining the fair value of the relevant properties and assets was the Discounted Cash Flow (DCF) approach as the primary method and the Net Maintainable Earnings approach as the secondary method. The DCF method provides a valuation based on the formulation of projected future cash flows over a ten-year period (plus a terminal value), which was then discounted at an appropriate discount rate. The Net Maintainable Earnings approach was used to support the DCF method results.

Effective 29 February 2016 an independent valuation of the ginning assets was commissioned by the Group to provide external support for the Directors assessment of fair value for financial reporting purposes. Colliers International ("Colliers") were engaged for this purpose. The methodology applied by Colliers to value the ginning assets was a net maintainable earnings approach. An assessed sustainable EBITDA was multiplied by an appropriate earnings multiple derived from market sources. The external valuation obtained for the ginning assets was then used to support the results of a DCF model for the prior year. The directors continue to utilise this DCF method to determine the fair value of ginning assets. Management calculated the fair value as at 28 February 2018 and determined that the carrying value of the assets is in line with the fair value and, therefore, no further revaluations were recorded.

The fair value measurement of ginning assets outlined above uses significant unobservable inputs and are classified as level 3 in the financial reporting fair value measurement hierarchy. Significant unobservable valuation inputs as at 28 February 2018 included:

- Sustainable bales. The average annual sustainable ginning bales have been included following a grower by grower assessment of production areas, seasonal rotation, estimated yields and reliability of contracting. The measure is inclusive of Namoi's respective shares of throughputs of the joint venture cotton gins. The number being approximately a 28 % (2017: 28%) market share of an Australian sustainable crop size of 3.2 million bales (2017: 3.2 million bales) which also approximates the average number of bales achieved over the last 7 years, noting that individual seasons can fluctuate significantly dependent upon water availability;
- Growth rate - revenues 1.65% (2017 - 1.65%)
- Growth rate - expenses 2.20% (2017 - 2.20%)
- Pre-tax discount rate of 16% (2017 - 16.0 %)

Any significant increases/(decreases) in sustainable bales volumes, changes to EBITDA from ginning revenue per bale, or throughput rate (production cost impact) or changes to the discount rate, in isolation, would result in a significantly higher/(lower) fair value.

Impairment of Assets at Cost

Impairment losses are determined with reference to the items recoverable amount calculated as the greater of fair value less costs to sell or its value in use. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where

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the carrying values exceed the estimated recoverable amount (refer to Note 1), the assets or cash-generating units are written down to their recoverable amount.

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.

Year Ended 28 February 2018 (\$'000)	Gins	Other	CWIP
<i>Consolidated and parent entity</i>			
Written down value - 1 March 2017	127,266	7,873	3,334
Acquisition of subsidiary	-	511	-
Additions and Transfer to/(from) CWIP	7,321	981	(42)
Disposals	(65)	(149)	-
Depreciation ¹	(6,993)	(955)	-
Written down value - 28 February 2018	127,529	8,261	3,292
<i>Consolidated and parent entity</i>			
Written down value - 1 March 2016	130,657	8,565	1,688
Additions and Transfer to/(from) CWIP	1,968	290	1,646
Disposals	(39)	(96)	-
Depreciation	(5,320)	(886)	-
Written down value - 28 February 2017	127,266	7,873	3,334

¹ Ginning infrastructure assets are depreciated on a units of production basis over their rolling estimated remaining useful lives of 20 years of sustainable bales.

16. Trade and Other Payables

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
<i>Current</i>				
Trade creditors and accruals ¹	7,799	7,938	7,773	7,936
Grower deposits	32	38	32	38
Customer deposits	14	132	14	132
Trade creditors to an associate	-	293	-	293
Funds due to futures brokers ²	-	-	-	-
Loans from controlled entities	-	-	17,732	17,732
	7,845	8,401	25,551	26,131

¹ Trade and other payables are non-interest bearing and are settled under a variety of terms dependent upon the transaction arrangements and the counterparty. The carrying amount of trade and other payables approximates their fair value.

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17. Interest Bearing Liabilities

The extent to which the economic entity's finance facilities provided by Commonwealth Bank of Australia (CBA) were utilised at 28 February 2018 is listed below.

	Facility Use - AUD \$'000			
	Consolidated		Parent	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
<i>Current</i>				
<i>AUD Facility Use</i>				
Short term	18	819	18	819
Working capital finance ¹	6,000	9,500	6,000	9,500
Term debt ²	-	5,500	-	5,500
	6,018	15,819	6,018	15,819
Lease liability	758	771	758	771
	758	771	758	771
	6,776	16,590	6,776	16,590
<i>Non Current</i>				
Loans from controlled entities	-	-	2,049	2,049
Term debt ²	42,000	41,980	42,000	41,980
Lease liability	1,226	1,350	1,226	1,350
	43,226	43,330	45,275	45,379
Total Current and Non-Current	50,002	59,920	52,051	61,969

¹ Working capital lines are utilised to fund day to day expenses of the business including specific funding needs for cotton seed inventory and debtors.

² Term debt lines are utilised to fund capital projects relating to the plant, property and equipment of the business.

Other liabilities

Interest bearing liabilities are carried at amortised cost.

Hire purchase contracts on equipment have an average term of 2.2 years with the average interest rate implicit in the contracts of 4.7% (2017: 4.9%).

Details of interest rate risk, foreign exchange risk and liquidity risk are disclosed in Note 28.

Facility limits

The seasonal finance facilities limit, excluding term debt, at 28 February 2018 was \$12.5 million (2017: \$12.5 million) including operating overdrafts. In the current year a higher limit of \$17.5 million applied from 1 March 2017 to 30 June 2017.

At balance date CBA had provided Namoi Cotton with a secured \$42.0 million (2017: \$47.5 million) debt facility with core components maturing on 28 February 2020. Security is provided by a fixed and floating charge over the assets and undertakings of the group.

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	Facility Limit - AUD '\$'000			
	Consolidated		Parent	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
<i>AUD Facility Limit</i>				
Short term	2,500	2,500	2,500	2,500
Working capital finance ³	10,000	10,000	10,000	10,000
Term debt - A ¹	35,000	35,000	35,000	35,000
Term debt - B ²	7,000	12,480	7,000	12,480
	54,500	59,980	54,500	59,980

Financing arrangements

The Seventh Variation Deed was executed on 26 March 2018 extending the facility end date of the working capital facility to 31 March 2019.

Finance renewal

Finance facility limits negotiated with CBA as per above:

¹Committed term debt facility (non-amortising) - facility limit of AUD\$35 million (2017: AUD\$35 million) with a facility end date of 28 February 2020;

²Committed term debt facility (non-amortising) - facility limit of AUD\$7.0 million (2017: AUD\$12.5 million) with a facility end date of 28 February 2020; and

³Committed cotton seed, ginning consumables and general working capital needs under a multi option working capital facility (non-amortising) - facility limit of AUD\$10 million (2017: AUD\$10 million) with a facility end date of 31 March 2019.

With the exception of the maturity of the facilities, the terms and conditions are materially consistent with the previous facilities.

The group has agreed to certain financial covenants with CBA under the new finance facilities at what are considered appropriate levels to meet the needs of the business. Financial covenants under the previous agreements were complied with during the year.

The Directors at the date of this report expect the working capital facility will be renewed thereafter and at appropriate levels for FY 2019/20 operations.

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18. Provisions

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
<i>Current</i>				
Employee leave entitlements	2,235	1,979	2,226	1,979
Employee variable compensation	578	-	563	-
Provision for tax	60	-	-	-
	2,873	1,979	2,789	1,979
<i>Non-current</i>				
Employee leave entitlements	874	863	865	863
	874	863	865	863

19. Co-operative Grower Member Shares

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Grower member shares - fixed capital entitlement	-	447	-	447
	No.		No.	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
<i>1 cent Grower member shares (fully paid)</i>				
Shares at the beginning of the financial year	165,600	165,600	165,600	165,600
Shares issued during the year	-	-	-	-
Shares converted to residual capital stock ¹	(165,600)	-	(165,600)	-
Shares at the end of the financial year	-	165,600	-	165,600

¹ Each grower member holding 800 grower member shares converted to 158,504 residual capital stock and subsequently to ordinary shares on a one-for-one basis under the Restructure. Total ordinary shares issued to grower members was 32,810,328.

Terms and conditions (previously):

- Grower shares may only be held by active members;
- Grower shareholders have one vote at member meetings, regardless of the number of grower shares held;
- Grower shares can be issued and are redeemable for a fixed amount of \$2.70 per share, but have no entitlement to surplus repayments;
- Grower shares have no dividend entitlement;
- Grower shareholders appoint the directors of Namoi Cotton, subject to the stockholders right to nominate up to three non-grower directors;
- Grower shareholders are entitled to a rebate, if applicable, for each bale of cotton ginned and/or marketed with Namoi Cotton.

Minimum holding and forfeiture rules (previously):

Rule 6 of the rules of the co-operative required active members to hold 800 shares, produce cotton from a minimum 40 hectares and conduct a minimum 20% of the member's cotton business with the co-operative in order to be eligible for a rebate of ginning and marketing charges levied by the co-operative. The board could declare membership of a member cancelled where the grower was inactive for two years, whereby grower shares were forfeited and the grower was repaid an amount equal to the initial issue price.

20. Contributed Equity

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Ordinary Shares/Capital Stock	37,639	1,098	37,639	1,098
	Consolidated and Parent			
	No. '000		\$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
<i>1 cent Capital Stock (fully paid)</i>				
Capital stock at the beginning of the financial year	109,843	109,843	1,098	1,098
Capital stock converted as part of restructure	(109,843)	-	(1,098)	-
Capital stock at the end of the financial year	-	109,843	-	1,098
<i>1 cent Residual Capital Stock (fully paid)</i>				
Residual capital stock at the beginning of the financial year	-	-	-	-
Grower member shares converted as part of restructure	32,810	-	328	-
Capital stock converted as part of restructure	109,843	-	1,098	-
Residual capital stock converted to ordinary shares	(127,427)	-	(1,274)	-
Residual capital stock at the end of the financial year	15,226	-	152	-
<i>Ordinary Shares (fully paid)</i>				
Ordinary shares at the beginning of the financial year	-	-	-	-
Residual capital stock converted to ordinary shares	127,427	-	1,274	-
Ordinary shares at the end of the financial year	127,427	-	1,274	-

On 26 September 2017 Namoi Cotton Co-operative Ltd grower members and co-operative capital unit holders voted in favour of schemes of arrangement to convert the Co-operative (registered under the Co-operatives National Law) to a company limited by shares (registered under the Corporations Act).

The vote received final regulatory approval and became effective on 10 October 2017.

The Restructure also resulted in the grower member shares (previously recorded as a financial liability) being settled via the issuance of ordinary shares. In accordance with accounting standards, the financial liability was revalued to fair value prior to being settled with ordinary shares. The fair value of the grower member shares was determined to be \$7.00 per share at the restructure date, by an Independent Expert. The increase in the

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carrying value of the grower member shares from \$2.70 to \$7.00 per share resulted in a fair value decrement to profit and loss of \$0.712 million.

The grower share liability of \$1.16 million, co-operative capital unit premium reserve of \$35.38 million and the contributed equity of \$1.098 million were reclassified to share capital in accordance with the Restructure subsequent to 31 August 2017.

At balance date some 15.2m Residual Capital Stock had not been converted to ordinary shares. Under the terms of the Restructure in October 2017 and the Constitution of Namoi Cotton Limited the redemption of Residual Capital Stock is permitted. The conditions of such redemption include that redemption cannot occur until the earlier of a minimum of 90% of Residual Capital Stock have being converted to Ordinary Shares or the 30th June 2018.

The number of residual capital stock available to redeem is expected to be immaterial given the redemption is at market price less a 10% discount, they are not entitled to any dividends, are non-transferrable and are not listed on the ASX. The Board has discretion in determining whether, and if so when, to redeem the outstanding residual capital stock.

Capital stock terms and conditions (previously):

- Capital stock holders are entitled to distributions as declared by the directors;
- Capital stock holders have no right to vote at any general meeting of Namoi Cotton;
- Matters relating to the appointment of the non-grower directors must be approved by capital stock holders prior to submission to a general meeting of Namoi Cotton for approval;
- On winding up, capital stock holders are entitled to the proceeds from surplus assets after payment of grower paid up share capital.

Ordinary shares terms and conditions:

- Ordinary shareholders are entitled to dividends as declared by the directors;
- Each ordinary shareholder is entitled to one vote per one share;
- On winding up, ordinary shareholders are entitled to the proceeds from surplus assets.

Namoi Cotton Employee Incentive Share Plan

The Employee Incentive Share Plan was suspended in August 2004. All full-time employees who were continuously employed by Namoi Cotton for a period of one year were eligible to participate in the plan after the finalisation of the full year results for the year ended 29 February 2004. The issue price was at a 5% discount to the average market price of Namoi capital stock over the 5 trading days preceding the offer date.

Under the terms of the plan, employees are provided with an interest free loan to finance the issue price of the units. A minimum of 75% of the amount of all distributions paid in relation to units issued under the plan must be applied as a repayment of the loan. In any event, the loan must be repaid on the earlier to occur of termination of employment and 10 years. At the end of the financial year employee loans totalled \$24,411 (2017: \$24,441).

Units issued under the plan are placed in escrow until the later to occur of three years from issue and when the employee loan has been fully repaid. At the end of the financial year there were 141,000 residual capital stock (2017: 141,000 units) under escrow.

Capital management

Namoi Cotton manages capital through the payment of dividends and participation in the buy back or issuance of ordinary shares. Decisions on capital management are made having regard to compliance with externally imposed capital requirements principally through maintaining a minimum level of net assets.

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21. Nature and Purpose of Reserves

Capital stock (CCU) premium reserve (previously)

By virtue of rule 15.2 of the co-operative rules, the capital stock premium reserve is used to record amounts received in respect of capital stock issued at a premium and are to be regarded as paid up capital of the co-operative.

The balance standing to the credit of this account may be applied in any one or more of the following ways:

- In the payment of dividends if those dividends are satisfied by the issue of shares to the members of the co-operative;
- In writing off the preliminary expenses of the co-operative; or
- In providing for the premium payable on redemption of shares, debentures or co-operative capital units.

Asset revaluation reserve

The asset revaluation reserve is used to record increases in the fair value of ginning assets and decreases to the extent that such decreases relates to an increase on the same asset previously recognised in equity. The reserve can only be used to pay dividends in limited circumstances.

22. Segment Information

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) with the executive management team in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the manner in which the product is sold, whether retail or wholesale, and the nature of the services provided, the identity of service line manager and country of origin. Discrete financial information about each of these operating businesses is reported to the executive management team on at least a monthly basis.

The reportable segments are based on aggregated operating segments determined by the similarity of the products and sold and/or the services provided, as these are the sources of the group's major risks and have the most effect on the rates of return.

Types of products and services

Ginning

The ginning business operates 12 cotton gins (incorporating 2 joint venture gins, referred to in note 12) located in the key growing areas of NSW and Queensland. The ginning service provided to the growers during the production process includes the separation of lint cotton from seed and other foreign matter and the conversion of cotton in module form to bale form. Grower customers are also able to sell the white cotton seed by-product to Namoi Cotton or elect to retain their white cotton seed.

Marketing

The marketing business involves the purchase of lint cotton from Australian growers using a variety of forward contracts that offer differing combinations of price, delivery and risk characteristics. Subsequent to the formation of NCA, bales procured by Namoi from growers are on-sold to NCA with approximately 99% of NCA sales ultimately being to Asia. The NCA joint venture manages its marketing risks by utilising cotton futures and options and foreign currency contracts under strict risk management policies. The controlled entity ACS provides classing services for the NCA joint venture and other cotton merchants.

Namoi Cotton Limited (formerly Namoi Cotton Co-operative Ltd)

Commodities

The controlled entity Namoi Cotton Commodities Pty Ltd procures various grain and pulse crops from Australian growers and sells these into various domestic and international markets.

Accounting policies

The accounting policies used by the group in reporting segments internally are the same as those contained in note 1 to the accounts and in the prior period.

The following items (or a portion thereof) of income and expenditure are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Interest Revenue;
- Rental Revenue;
- Share of profit from associate (other than NCA and Cargill);
- Finance costs;
- Corporate employee benefits expense;
- Corporate depreciation; and
- Other corporate administrative expenses.

A segment balance sheet and cashflow is not reported to the chief operating decision makers and are, therefore, not disclosed as part of this report.

Business Segments Year ended 28 February 2018	Ginning \$'000	Marketing ^{1,2} \$'000	Commodities \$'000	Unallocated \$'000	Consolidated \$'000
Revenue					
Sales to external customers	158,495	324,759	227	-	483,481
Other revenues from external customers	222	-	-	-	222
Total consolidated revenue	158,717	324,759	227	-	483,703
Non-segment revenues					
Interest revenue	-	-	-	23	23
Rental revenue	-	-	-	213	213
	158,717	324,759	227	236	483,939
Results					
Profit/(loss) before tax and finance costs	19,620	2,543	16	(9,250)	12,929
Finance costs	(2,540)	-	28	(46)	(2,558)
Share of profit from associates	(1,378)	681	-	-	(697)
Net Profit before tax	15,702	3,224	44	(9,296)	9,674
Other segment information					
Depreciation	(7,385)	(52)	(134)	(378)	(7,949)

Included in the unallocated results for the period are:

Interest Revenue	23
Rental Revenue	213
Total Unallocated Revenue	236
Share of profit/(loss) of other associates	-
Employee benefits expense	(3,673)
Depreciation	(378)
Finance costs	(46)
Other corporate administrative expenses	(5,435)
Total Unallocated Result	(9,296)

¹ Marketing revenue remains inclusive of lint sales values upon transfer of bales from Namoi to NCA.

² Marketing results include the net result for the NCA joint venture.

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Namoi Cotton Limited (formerly Namoi Cotton Co-operative Ltd)

Business Segments Year ended 28 February 2017	Ginning \$'000	Marketing \$'000	Commodities \$'000	Unallocated \$'000	Consolidated \$'000
Revenue					
Sales to external customers	112,222	242,407	301	-	354,930
Other revenues from external customers	200	-	-	-	200
Total consolidated revenue	112,422	242,407	301	-	355,130
Non-segment revenues					
Interest revenue	-	-	-	1	1
Rental revenue	-	-	-	213	213
	112,422	242,407	301	214	355,344

Results					
Profit/(loss) before tax and finance costs	8,054	1,291	105	(6,710)	2,740
Finance costs	(2,556)	-	28	(84)	(2,612)
Share of profit from associates	(802)	712	-	-	(90)
Net Profit before tax	4,696	2,003	133	(6,794)	38

Other segment information					
Depreciation	(5,684)	(35)	(142)	(345)	(6,206)

Included in the unallocated results for the period are:

Interest Revenue	1
Rental Revenue	213
Total Unallocated Revenue	214
Share of profit/(loss) of associates	-
Employee benefits expense	(3,426)
Depreciation	(345)
Finance costs	(84)
Other corporate administrative expenses	(3,153)
Total Unallocated Result	(6,794)

Geographic Area

The economic entity operates in two separate geographic areas.

Namoi Cotton procures lint cotton and white cotton seed and provides cotton ginning activities to and from growers located solely within Australia. A portion of cotton seed sales are made to a variety of countries in Asia with similar trading terms and conditions and risk profiles. As such for the purposes of this note Namoi Cotton's geographic areas are considered to be Australia and Asia with consolidated revenues as follows:

Geographic Areas Year ended 28 February 2018	Australia \$'000	Asia \$'000	Consolidated \$'000
Revenue			
Sales to external customers	465,057	18,425	483,482
Other revenues from external customers	222	-	222
Total consolidated revenue	465,279	18,425	483,704

Geographic Areas Year ended 28 February 2017	Australia \$'000	Asia \$'000	Consolidated \$'000
Revenue			
Sales to external customers	338,109	16,821	354,930
Other revenues from external customers	200	-	200
Total consolidated revenue	338,309	16,821	355,130

23. Commitments and Contingencies

Commitments for capital expenditure

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Property, plant and equipment Estimated capital expenditure contracted for at balance date but not provided for:				
Payable within one year	9,931	5,870	9,931	5,870

Operating lease commitments – group as lessee

The group has entered into commercial leases in respect of land and buildings which have an average life of less than 1 year. Options to renew are included in the contracts for commercial buildings only. There are no restrictions placed upon the lessee by entering into these leases.

The future minimum rentals payable under the non-cancellable operating leases are as follows:

Operating lease commitments - Group as lessee				
Not later than 1 year	66	307	66	307
Later than 1 year and not later than 5 years	-	-	-	-
	<u>66</u>	<u>307</u>	<u>66</u>	<u>307</u>

Operating lease commitments receivable – group as lessor

The group has entered into non-cancellable commercial property leases on its surplus office building and into cancellable residential accommodation leases for certain employees in remote areas. The commercial lease allows for an annual increase in line with Consumer Price Index movements while residential leases are subject to periodic market assessment.

Future minimum rentals receivable under non-cancellable operating leases as at 28 February 2018 are as follows:

Operating lease commitments receivable - Group as lessor				
Not later than 1 year	5	44	5	44
Later than 1 year and not later than 5 years	-	-	-	-
	<u>5</u>	<u>44</u>	<u>5</u>	<u>44</u>

Finance lease and hire purchase commitments – group as lessee

The group has finance leases and hire purchase contracts for gin packaging and logistics supply chain equipment with a carrying value of \$2,330,645 (2017: \$2,701,735) for both the group and the company. The equipment is mainly presented in Gin Assets in Note 15. Property, Plant and Equipment.

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Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Within one year	825	844	825	844
After one year but within five years	1,301	1,379	1,301	1,379
After five years	-	44	-	44
Total minimum lease payments	2,126	2,267	2,126	2,267
Unexpired finance charges	(142)	(146)	(142)	(146)
Present value of minimum lease payments	1,984	2,121	1,984	2,121

The weighted average interest rate implicit in the contracts for both the group and parent is 4.7% (2017: 4.9%).

Contingent liabilities

Namcott Investments Pty Ltd, a controlled entity of the company, is a partner of the COA, Namcott Investments Pty Ltd is jointly and severally liable for the COA liabilities. At 28 February 2018 the liabilities of COA exceeded its assets. Refer to Note 11, Investments in Associates and Joint Ventures.

24. Significant Events after Balance Date

No events of a material nature have occurred between balance date and the date of this report, other than as disclosed elsewhere in this report.

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25. Related Party Disclosures

The consolidated financial statements include the financial statements of Namoi Cotton Limited and the subsidiaries listed in the following table. All subsidiaries were incorporated in Australia. Namoi Cotton Limited is the ultimate parent entity of the group.

Ownership and investment

Name of entity	Equity Interest %		Investment \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Australian Classing Services Pty Ltd ¹	100%	50%	1,380	-
Australian Raw Cotton Marketing Corp. Pty Ltd	100%	100%	-	-
Namcott Investments Pty Limited	100%	100%	-	-
Namoi Cotton Superannuation Pty Ltd	100%	100%	-	-
Namoi Cotton Pty Ltd	100%	100%	-	-
Namcott Marketing Pty Ltd	100%	100%	-	-
Namoi Cotton Commodities Pty Ltd	96%	96%	-	-
Namoi Cotton Finance Pty Ltd	100%	100%	-	-
Cotton Trading Corporation Pty Limited	100%	100%	1,830	1,830
			3,210	1,830
Investments held in controlled entities eliminated			(3,210)	(1,830)
			-	-

¹ Formerly disclosed as an associate the acquisition being disclosed in the Business Combinations Note 4.

Principal activities:

- Namcott Investments Pty Ltd, a subsidiary of Namoi Cotton, is the beneficial owner of the interests in CPL and COA Partnership. Namoi Oilseeds Trust formerly held the interest in the partnership.
- Namoi Cotton Superannuation Pty Ltd is trustee of the company's former superannuation fund, which was wound up in June 2000.
- Namoi Cotton Pty Ltd is a non-trading company.
- Namcott Marketing Pty Ltd, a subsidiary of Namoi Cotton, is the beneficial owner of the interests in NCPS shares and NCA Partnership.
- Namoi Cotton Finance Pty Ltd secures funding for the group.
- Namoi Cotton Commodities Pty Ltd has main trading activities of sale and logistics of plastic waste from ginning activities.
- Cotton Trading Corporation Pty Limited is controlled by Namcott Investments Pty Ltd.
- Australian Raw Cotton Marketing Corp Pty Ltd is a non-trading company.
- Australian Classing Services Pty Ltd trading activities are mainly the provision of classing services.

Transactions with subsidiaries

Transactions between members of the wholly owned group were minimal. Amounts receivable by and payable to the parent entity are included in the respective notes to this financial report.

Transactions with other related parties

ACS leased HVI machines from the parent during the period for \$35,906 (2017: \$35,906).

Sales of white cotton seed to the COA Partnership were \$33,007,226 (2017: \$19,454,562) and purchases of white cotton seed from the COA Partnership were \$2,205,890 (2017: \$nil).

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Transactions with NCA

Management fees received by Namoi for services provided to Namoi Cotton Alliance \$3.3m (inclusive of bale handling fees) (2017: \$2.5m).

Lint Cotton Sales from Namoi to Namoi Cotton Alliance \$321.2m (2017: \$239.9m).

Insurance on-charged by Namoi to Namoi Cotton Alliance \$0.6m (2017: \$0.4m).

Contingent liabilities

Namcott Investments Pty Ltd, a controlled entity of the company, is a partner of the COA, Namcott Investments Pty Ltd is jointly and severally liable for the COA liabilities. At 28 February 2018 the liabilities of COA exceeded its assets and therefore has contributed to a negative investment in COA. Refer to Note 11. Investments in Associates and Joint Ventures.

26. Directors' and Executive Disclosure

Compensation by category of KMP

	Consolidated		Parent	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
	\$	\$	\$	\$
Short-term	2,187,891	1,808,592	2,187,891	1,808,592
Post Employment	77,523	152,293	77,523	152,293
Other Long-term	21,305	2,955	21,305	2,955
	2,286,719	1,963,840	2,286,719	1,963,840

Marketing and ginning transactions and balances with KMP

Transactions with directors and their related parties were in accordance with the rules of the co-operative, under terms and conditions applicable to all members and the Constitution of Namoi Cotton Limited. Under the rules of the co-operative, grower directors were required to conduct a minimum of 20% of their total cotton business with Namoi Cotton. In accordance with that rule, directors entered into marketing contracts and ginning contracts with Namoi Cotton. Amounts paid/received or payable/receivable from/to directors and their respective related parties were as follows:

Consolidated and Parent entity					
Cotton Purchases		Ginning Charges Levied		Grain & Seed Purchases	
28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
\$	\$	\$	\$	\$	\$
11,722,426	6,670,706	2,255,400	1,418,504	2,366,395	1,813,907

The nature of the terms and conditions of the above other transactions with directors and director related entities are consistent with the terms of Namoi Cotton's standard products.

Refer to the Remuneration Report within the Directors' Report for more information.

27. Remuneration of Auditors

	Consolidated and Parent Entity	
	28 Feb 2018	28 Feb 2017
Remuneration for the audit and review of the financial reports of the parent entity and the consolidated entity	222,100	173,900
Remuneration for other services provided to the parent entity and the consolidated entity:		
- Other assurance services	191,500	27,000
	413,600	200,900

28. Financial Risk Management Objectives and Policies

The nature of Namoi Cotton's business involves the potential exposure to a number of major financial and non-financial risks. The major financial market business risks exposed to by Namoi or later by the NCA joint venture are:

- Lint cotton, cotton seed and grains commodities price risk;
- Cotton basis risk;
- Cotton spread risk;
- Foreign exchange risk;
- Interest rate risk;
- Credit risk;
- Funding and liquidity risk.

Accordingly, Namoi Cotton conducts its business with a focus on risk management in order to ensure the alignment of returns achieved from its business activities for stakeholders with the risk capital applied to fund these activities. The key elements of Namoi Cotton's risk management policy that facilitate the management of these risks include various derivative financial instruments, physical risk position limits and techniques and Value at Risk modelling.

Namoi Cotton is exposed to price risks through entering commodity purchase and sale transactions. To limit potential impacts upon the trading margin achieved on those transactions Namoi Cotton and later NCA enters into derivative transactions, including principally cotton futures and options contracts and forward currency contracts. Where derivatives instruments do not exist for a particular commodity the risk management policy sets physical limits over trading positions.

Forward rate agreements and interest rate swaps are entered into to manage interest rate risks that exist in Namoi Cotton's financing activities.

The MFRMC ensures the effective management of each of these risks through the implementation and adherence to a risk management policy. The risk management policy of Namoi Cotton requires all risk to be managed at a crop (i.e. season) level. The key extracts from the risk management policy for managing Namoi Cotton's major financial market business risks are summarised below.

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Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each derivative financial instrument are disclosed in note 1e to the financial statements.

Risk Exposure and Responses

Price risk

Namoi Cotton is potentially exposed to movements in the price of lint cotton as a result of fixed price purchases and sales of lint cotton respectively in contracts with growers and mills principally through its investment in the NCA JV. The company is also exposed to movements to price of cotton seed through fixed price purchases and sale contracts.

Cotton seed price risk is managed principally through imposition of physical trading limits. It is a risk management requirement to utilise foreign currency derivatives to minimise the impact of USD/AUD fluctuations on fixed price sales contracts.

It is the risk management policy that no derivatives will be entered into until such time as a fixed price purchase or sale commitment exists.

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Financial Assets				
Derivatives	8,407	14,221	8,407	14,221
	8,407	14,221	8,407	14,221
Financial Liabilities				
Derivatives	(8,393)	(14,141)	(8,393)	(14,141)
	(8,393)	(14,141)	(8,393)	(14,141)
Net Exposure	14	80	14	80

Cotton seed price risk

Cotton seed price risk potentially arises when Namoi Cotton enters into a forward commitment to purchase or sell physical cotton seed without simultaneously entering into the opposing transaction. Namoi Cotton managed cotton seed price risk by adhering to physical limits in respect of its cotton seed open positions.

The following sensitivity analysis is based upon seed pricing that existed at 28 February 2018 and 28 February 2017, whereby if the cotton seed price had moved, as illustrated in the table below, with all other variables held constant, post-tax profit and equity (excluding the effect of net profit) would have changed as follows:

	Post Tax Profit Higher/(Lower) \$'000		Equity Higher/(Lower) \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Consolidated				
+\$10/Mt (cotton seed)	(234)	51	-	-
-\$5/Mt (cotton seed)	117	(25)	-	-
Parent entity				
+\$10/Mt (cotton seed)	(234)	51	-	-
-\$5/Mt (cotton seed)	117	(25)	-	-

Interest rate risk

At reporting date, the group had the following financial assets and liabilities exposed to Australian variable interest rate risk.

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Financial Assets				
Cash and cash equivalents	1,493	2,176	1,352	2,055
Trade and other receivables	65	349	65	349
	1,558	2,525	1,417	2,404
Financial Liabilities				
Interest bearing loans and borrowings	(50,002)	(59,840)	(50,002)	(59,840)
Derivatives	(52)	-	(52)	-
	(50,054)	(59,840)	(50,054)	(59,840)
Net Exposure	(48,496)	(57,315)	(48,637)	(57,436)

Interest rate swap contracts, with a fair value loss of \$51,780 (2017 \$nil) at reporting date to both the group and parent, are exposed to value movements if interest rates change.

At reporting date, after taking into account the effect of interest rate swaps, 41.7% (2017: nil%) of the group's borrowings are at a fixed rate of interest 2.1% (2017: nil%). The group continually monitors its interest rate exposure with regard to existing and forecast working capital and term debt requirements.

The following sensitivity analysis is based upon interest rate exposures that existed at 28 February 2018 and 28 February 2017, whereby if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity (excluding the effect of net profit) would have changed as follows:

	Post Tax Profit Higher/(Lower) \$'000		Equity Higher/(Lower) \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Consolidated				
+100 basis points	(280)	(576)	-	-
-50 basis points	140	288	-	-
Parent entity				
+100 basis points	(280)	(576)	-	-
-50 basis points	140	288	-	-

The movements in post-tax profit and equity are due to higher/lower finance costs from variable rate debt offset by fixed rate derivatives and interest bearing financial assets.

Sensitivity analysis was performed by applying a 100-basis point movement in interest rates to all non-fixed interest-bearing assets and liabilities at reporting date. As a result of recent global market volatility, 100 basis points has been utilised in the absence of reliable data predicting reasonably possible movements of interest rates. Year end balances are not reflective of interest bearing assets and liabilities throughout the year, due to the seasonal nature of the business.

Foreign exchange risk

Namoi Cotton has transactional currency exposures predominantly arising from some cotton seed sales being denominated in United States dollars (USD) as opposed to the group's functional Australian dollar (AUD) currency, which denominates all payments to growers. Potentially foreign currency denominated financial assets and liabilities may be adversely affected by a change in the value of foreign exchange rates.

Namoi Cotton requires all net foreign exchange exposures to be managed with either forward currency contracts or foreign exchange options contracts.

The group's policy is to enter into forward exchange contracts at the time it enters into a firm purchase commitment for lint cotton (through NCA) or a US dollar cotton seed sale commitment.

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At reporting date, the group had the following exposure to USD foreign currency that is not designated as cash flow hedges:

	Consolidated \$'000		Parent \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Financial Assets				
Cash and cash equivalents	177	464	177	464
Trade and other receivables	127	659	127	659
Derivatives	86	444	86	444
	390	1,567	390	1,567
Financial Liabilities				
Trade and other payables	(14)	(118)	(14)	(118)
Interest bearing loans and borrowings	(349)	(379)	(349)	(379)
Derivatives	(111)	-	(111)	-
	(474)	(497)	(474)	(497)
Net Exposure	(84)	1,070	(84)	1,070

The group has USD denominated leasing contracts of USD \$272,392 (2017: USD \$291,061) over certain ginning equipment supplied from the United States. Foreign exchange contracts that are subject to fair value movements through the statement of comprehensive income as foreign exchange rates move.

	Notional Amount AUD \$'000		Average Exchange Rate	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
<i>Foreign exchange contracts held at balance date</i>				
Group				
Sell US\$/Buy AUD\$ maturity 0-12 months	5,838	24,878	0.7794	0.7658
Buy US\$/Sell AUD\$ maturity 0-12 months	(3,335)	(7,925)	0.7796	0.7670
Parent				
Sell US\$/Buy AUD\$ maturity 0-12 months	5,838	24,878	0.7794	0.7658
Buy US\$/Sell AUD\$ maturity 0-12 months	(3,335)	(7,925)	0.7796	0.7670

Priced cotton seed sales contracts are treated as financial instruments under AASB 139.

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The following sensitivity analysis is based upon foreign currency exposures that existed at 28 February 2018 and 28 February 2017, whereby if the AUD had moved (relative to the USD), as illustrated in the table below, with all other variables held constant, post tax profit and equity (excluding the effect of net profit) would have changed as follows:

	Post Tax Profit Higher/(Lower) \$'000		Equity Higher/(Lower) \$'000	
	28 Feb 2018	28 Feb 2017	28 Feb 2018	28 Feb 2017
Consolidated				
AUD/USD +100 basis points	(42)	(34)	-	-
AUD/USD -50 basis points	21	17	-	-
Parent entity				
AUD/USD +100 basis points	(42)	(34)	-	-
AUD/USD -50 basis points	21	17	-	-

The sensitivity results in the table are considered immaterial to the group. It is the group's risk management policy to maintain foreign exchange contracts to a 95% to 105% band relative to exposures.

Management believe the reporting date risk exposures are representative of the risk exposure inherent in the financial instruments.

Sensitivity analysis was performed by taking the USD foreign exchange rate as at balance date, moving this rate by 100 basis points and then converting all USD denominated assets and liabilities. This calculation reflects the translation methodology undertaken by the group. As a result of recent global market volatility, 100 basis points has been utilised in the absence of reliable data predicting reasonably possible movements in foreign exchange rates.

Credit risk

Namoi Cotton and later NCA exports the majority of lint cotton and some cotton seed to international counterparties. These export sales are concluded under contract and the potential risk exists for a counterparty to default on its contractual obligations and expose Namoi Cotton (seed) or NCA (lint cotton) to a financial loss.

Trade receivables outstanding from international counterparties are settled through high-ranking credit instruments such as irrevocable letters of credit and cash against documents.

In respect of its cotton seed and grain commodity sales to major domestic counterparties, Namoi Cotton has trade credit indemnity insurance policies for non-related parties.

The group is normally entitled to recover loans to growers and deferred costs through an offset to lint cotton, seed proceeds and other credits to a growers account. Where a formal finance facility has been established, the exposures are typically covered by crop mortgage and in some cases by real estate mortgages and/or guarantee.

In addition, trade debtor balances are monitored frequently, minimising Namoi Cotton's exposure to bad debts.

Namoi Cotton's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of these assets as indicated in the balance sheet less relevant trade credit insurance recoverable.

The group utilises only recognised and creditworthy third parties in respect to derivative transactions. These parties are regularly reviewed by the Board.

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Funding and liquidity risk

The group's objective in managing liquidity is to maintain a balance between continuity of funding, competitive pricing and flexibility so as to ensure sufficient liquidity exists to meet all short, medium and long term financial obligations. This is achieved through the utilisation of working capital facilities, term debt and bank overdrafts.

Year ended 28 February 2018	≤6 Months \$'000	6-12 Months \$'000	1-5 Years \$'000	>5 Years \$'000	Total \$'000
Consolidated					
Financial Assets					
Cash and cash equivalents	1,493	-	-	-	1,493
Trade and other receivables	3,900	24	-	-	3,924
Derivatives ¹	5,550	2,942	-	-	8,492
	<u>10,943</u>	<u>2,966</u>	<u>-</u>	<u>-</u>	<u>13,909</u>
Financial Liabilities					
Trade and other payables	(7,513)	(237)	-	-	(7,750)
Interest bearing loans and borrowings ²	(6,437)	(339)	(43,226)	-	(50,002)
Derivatives ¹	(5,618)	(2,938)	-	-	(8,556)
Co-operative grower member shares	-	-	-	-	-
	<u>(19,568)</u>	<u>(3,514)</u>	<u>(43,226)</u>	<u>-</u>	<u>(66,308)</u>
Net Exposure	<u>(8,625)</u>	<u>(548)</u>	<u>(43,226)</u>	<u>-</u>	<u>(52,399)</u>

Year ended 28 February 2017	≤6 Months \$'000	6-12 Months \$'000	1-5 Years \$'000	>5 Years \$'000	Total \$'000
Consolidated					
Financial Assets					
Cash and cash equivalents	2,256	-	-	-	2,256
Trade and other receivables	5,264	24	-	-	5,288
Derivatives ¹	14,566	99	-	-	14,665
	<u>22,086</u>	<u>123</u>	<u>-</u>	<u>-</u>	<u>22,209</u>
Financial Liabilities					
Trade and other payables	(8,244)	(157)	-	-	(8,401)
Interest bearing loans and borrowings ²	(10,736)	(5,853)	(43,288)	(43)	(59,920)
Derivatives ¹	(9,192)	(4,949)	-	-	(14,141)
Co-operative grower member shares	-	-	-	(447)	(447)
	<u>(28,172)</u>	<u>(10,959)</u>	<u>(43,288)</u>	<u>(490)</u>	<u>(82,909)</u>
Net Exposure	<u>(6,086)</u>	<u>(10,836)</u>	<u>(43,288)</u>	<u>(490)</u>	<u>(60,700)</u>

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Year ended 28 February 2018	≤6 Months \$'000	6-12 Months \$'000	1-5 Years \$'000	>5 Years \$'000	Total \$'000
Parent					
Financial Assets					
Cash and cash equivalents	1,352	-	-	-	1,352
Trade and other receivables	9,154	24	-	-	9,178
Derivatives ¹	5,550	2,942	-	-	8,492
	16,056	2,966	-	-	19,022
Financial Liabilities					
Trade and other payables	(7,487)	(17,969)	-	-	(25,456)
Interest bearing loans and borrowings ²	(6,437)	(339)	(43,226)	(2,049)	(52,051)
Derivatives ¹	(5,618)	(2,938)	-	-	(8,556)
Co-operative grower member shares	-	-	-	-	-
	(19,542)	(21,246)	(43,226)	(2,049)	(86,063)
Net Exposure	(3,486)	(18,280)	(43,226)	(2,049)	(67,041)

Year ended 28 February 2017	≤6 Months \$'000	6-12 Months \$'000	1-5 Years \$'000	>5 Years \$'000	Total \$'000
Parent					
Financial Assets					
Cash and cash equivalents	2,135	-	-	-	2,135
Trade and other receivables	10,516	24	-	-	10,540
Derivatives ¹	14,566	99	-	-	14,665
	27,217	123	-	-	27,340
Financial Liabilities					
Trade and other payables	(8,242)	(17,889)	-	-	(26,131)
Interest bearing loans and borrowings ²	(10,736)	(5,853)	(43,288)	(2,092)	(61,969)
Derivatives ¹	(9,192)	(4,949)	-	-	(14,141)
Co-operative grower member shares	-	-	-	(447)	(447)
	(28,170)	(28,691)	(43,288)	(2,539)	(102,688)
Net Exposure	(953)	(28,568)	(43,288)	(2,539)	(75,348)

¹ Derivatives reflect the actual cashflow and are net settled.

² In addition to the maturity profile of interest bearing loans and borrowings, there are actual cashflows in relation to interest for the 6-month period of \$1.03 million (2017: \$1.32 million), for the 6-12 month period of \$0.90 million (2017: \$1.09 million) and for the 1-5 year period \$3.52 million (2017: \$3.77 million).

Namoi Cotton's risk management policy in respect to funding and liquidity risk reflects actual and forecast seasonal borrowing requirements not exceeding 95% of the group's total approved banking facilities.

Namoi Cotton is unable at this time to provide guidance on individual components of liquidity for the financial year ended 28 February 2019 due to the cash flow components being contingent on forward crop commodity purchase and sale contracts.

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Fair value hierarchy

The group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1

The fair value is calculated using quoted prices in active markets. Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs.

Level 2

The fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). For financial instruments not quoted in active markets, the group uses various valuation techniques that compare to other similar instruments for which market observable prices exist and also other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Level 3

The fair value is estimated using inputs for the asset or liability that are not based on observable market data.

Application of fair value hierarchy to Namoi's financial statements

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables, and interest-bearing liabilities approximate their fair value.

The fair value of Cotton Seed Contracts (Purchase and Sale) and Cotton Seed Inventory (at fair value less cost to sell) is determined with reference to an observable market, reports and adjustments for freight premiums and discounts which are unobservable. During the period there has not been a change in unobservable inputs (i.e. freight premiums, discounts and cost to sell), accordingly no gains or losses have been recognised as a result in changes of unobservable inputs during the year. (2017: nil). The nature of the market used to determine the Cotton Seed Price is assessed as being illiquid given the low volume of transactions, accordingly the contracts are classified as level 3.

The fair value of unlisted debt securities is based on valuation techniques using market data that is not observable.

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The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below:

	Level 1 Quoted market prices \$'000	Level 2 Market observable inputs \$'000	Level 3 Non-market observable inputs \$'000	Total \$'000
Year ended 28 February 2018				
Consolidated				
Current assets				
Foreign exchange contracts	-	86	-	86
Cotton seed sale contracts	-	-	8,407	8,407
	-	86	8,407	8,493
Current liabilities				
Foreign exchange contracts	-	(111)	-	(111)
Interest rate swap contracts	-	(52)	-	(52)
Cotton seed purchase contracts	-	-	(8,393)	(8,393)
	-	(163)	(8,393)	(8,556)
	Level 1 Quoted market prices \$'000	Level 2 Market observable inputs \$'000	Level 3 Non-market observable inputs \$'000	Total \$'000
Year ended 28 February 2017				
Consolidated				
Current assets				
Foreign exchange contracts	-	444	-	444
Cotton seed purchase contracts	-	-	14,221	14,221
	-	444	14,221	14,665
Current liabilities				
Cotton seed sale contracts	-	-	(14,141)	(14,141)
	-	-	(14,141)	(14,141)

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	Level 1 Quoted market prices \$'000	Level 2 Market observable inputs \$'000	Level 3 Non-market observable inputs \$'000	Total \$'000
Year ended 28 February 2018				
Parent				
Current assets				
Foreign exchange contracts	-	86	-	86
Cotton seed sale contracts	-	-	8,407	8,407
	-	86	8,407	8,493
Current liabilities				
Foreign exchange contracts	-	(111)	-	(111)
Interest rate swap contracts	-	(52)	-	(52)
Cotton seed purchase contracts	-	-	(8,393)	(8,393)
	-	(163)	(8,393)	(8,556)

	Level 1 Quoted market prices \$'000	Level 2 Market observable inputs \$'000	Level 3 Non-market observable inputs \$'000	Total \$'000
Year ended 28 February 2017				
Parent				
Current assets				
Foreign exchange contracts	-	444	-	444
Cotton seed purchase contracts	-	-	14,221	14,221
	-	444	14,221	14,665
Current liabilities				
Cotton seed sale contracts	-	-	(14,141)	(14,141)
	-	-	(14,141)	(14,141)

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29. Other Non-Financial Information

Namoi Cotton Limited
ABN 76 010 485 588
AFSL 267863

Registered Office
Pilliga Road
Wee Waa NSW 2388

Principal place of business

Pilliga Road
Wee Waa NSW 2388

Phone: 61 2 6790 3000
Facsimile: 61 2 6790 3087

Share Register

Computershare Investor Services Pty Ltd
GPO Box 7045
Sydney NSW 1115
Investor Inquiries: 1300 855 080

Bankers

Commonwealth Bank of Australia

Auditors

Ernst & Young
Brisbane, Australia